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The Dollar Problem

BY DONALD MACDOUGALL

Some Definitions

ONE of the things there is no time to discuss is the definition of the dollar problem, but I must say briefly what I shall mean by it. I shall be talking about the *world* dollar problem, and not the dollar problem of Britain, the Sterling Area, or Europe; and about the *United States* dollar problem, not the problem of balancing trade between the whole of North America and the rest of the world.

I shall define a solution of the dollar problem as a situation in which there is no easy balance of payments between the United States and the rest of the world on current account, but allowing for normal long-term loans and grants. This balance must be achieved, or expected to be achieved, over a longish period, without discriminatory restrictions against American goods, and while preserving a reasonably high and free level of trade in the rest of the world, a reasonably high level of employment and rate of expansion (an important point), and reasonable terms of trade between the United States and the rest of the world.

This is, of course, an imprecise and question-begging definition. But I think this is probably inevitable because the dollar problem is partly a political one. And, if I may be allowed to say so, politics is not a very precise subject. The dollar problem is political in the sense that, for example, though it might be soluble if the rest of the world made sufficient sacrifices, yet, if it is thought politically undesirable or impracticable for these sacrifices to be made, the dollar problem remains.

I might mention in passing that, according to this definition, there can be a dollar problem even if currencies are convertible. Others have taken a different view. For example, Professor Mikesell, the American economist, has claimed that 'during the 1930's there was no general dollar shortage since the key currencies were all convertible into dollars'. This is true in the sense that no special shortage of dollars was apparent to the monetary authorities of the various countries, since other currencies could be freely converted into dollars. But there may still be a real dollar problem in such circumstances, according to my definition, if convertibility is maintained only at the expense of, for example, heavy unemployment in the rest of the world, as in the 1930's, or severe import restrictions against American goods.

Has the Dollar Problem Ever Existed?

The first question may seem a strange one to a British audience that has lived through the past eight years.

From Economica, August 1954

But it has been argued, mainly perhaps in America, but also over here, that there never can be a real dollar shortage, because it is always curable by sufficient devaluation of non-dollar currencies and sufficient deflation in the non-dollar world. I have unfortunately no time to discuss this question. I can only say, briefly and brutally, that, in my view and according to my definition, the dollar problem could not have been solved in this way, at least in the early post-war years.

Is There Still a Dollar Problem?

It is not so easy to answer my second preliminary question—is there still a dollar problem?—because there has been a great improvement since the early post-war years.

In the free world outside the United States, industrial production has nearly doubled since 1946, and is now about half as great again as it was before the war. Food production in the free world outside North America has risen by perhaps one-quarter, although it has, unfortunately, not caught up with the rise in population since before the war, especially in the Far East.

Mainly as a result of this great recovery of production in the rest of the world the United States balance of payments has become much less one-sided. In the first two post-war years—1946-47—the rest of the world paid for only one-half of its purchases from the United States by earnings in that country. In the next two years—I am taking pairs of years because of the two-year cycle that has been apparent in the American balance of payments during most of the post-war period—the fraction was two-thirds; in the following two years, six-sevenths; and in the last two years—1952-53—the rest of the world has paid for about 95 per cent of its purchases from the United States, leaving out of account throughout military goods and services supplied free by the American Government.

This improvement has, moreover, been accompanied by, I should say, a relaxation of discriminatory restrictions against American goods, and, on the whole, of restrictions on non-dollar trade. The terms of trade have become better for the rest of the world, not worse; and there has not been much serious unemployment. There has therefore, according to my definition, been a great easing of the dollar problem.

There is also the much-publicised fact that, during the fifteen months from the summer of 1952 to the autumn of 1953, the United States was actually losing gold and dollars to the rest of the world at a rate of \$2½ billion per annum.

The Problem Continues

In the light of all these encouraging facts, it is tempting to think that the dollar problem has been virtually solved. I think this would be a false deduction. A gain of \$2½ billion per annum is by no means excessive for rebuilding the still exiguous reserves of the non-dollar world, especially as the United States was very prosperous during the period in question. It is right and proper that a surplus of at least this size should be earned in such periods to offset deficits when the United States is less prosperous.

A margin of \$2½ billion is only about 5 per cent of the rest of the world's annual transactions with the United States, and we know from experience how quickly the position can be reversed. For example, in the year following the outbreak of war

in Korea, the rest of the world was gaining gold and dollars from America at a considerably greater rate; and within a few months we were in the middle of another dollar crisis.

I therefore suggest that the margin during these fifteen months should, in prudence, be wholly discounted; and we are left with, at best, a balance. But this was not an easy balance. It was a precarious one, since it depended on, first, $2 billion a year of U.S. government loans and grants, other than military supplies. This is broadly 'economic aid', which the Randall Commission has recommended should be brought to an end as soon as possible, at least on a grant basis.

The balance depended, secondly, on nearly $2½ billion a year of American military expenditure abroad. A considerable part of this expenditure is temporary, or at best precarious (though I am not suggesting that there is any danger of a large reduction in the near future), since it consists of off-shore purchases and of expenditure on military works abroad which will, presumably, sooner or later be completed.

The balance depended in the third place on $4 billionworth of military supplies given free by the American Government. If this form of aid ceased or was reduced, it might have to be replaced, in part at least, by the recipient countries.

Lastly, the balance depended on the suppression of demand for American goods through discriminatory restrictions imposed by other countries. I do not propose to put a figure to this nor to the total of the four points I have mentioned, but I am prepared to say that, in my view, there is still a real underlying gap of, shall we say, 'a good many billions of dollars'.

The gap is certainly much smaller than it was seven or eight years ago. But it is still uncomfortably large and it would be a grave mistake to think that it could be at all easily closed by devaluation or deflation or in any other way, without risking other serious difficulties.

American Aid and Farm Exports

United States economic aid financed 15 per cent of the American farm exports last year.

That's the figure reported by the U.S. Foreign Agricultural Service. U.S. foreign economic assistance in 1953 totalled $2.1 billion and U.S. agricultural exports were financed to the extent of 15 per cent by the assistance. In 1951, 25 per cent of the American farm exports were financed by economic aid, while in 1948-49, 60 per cent of the agricultural exports from United States was financed by U.S. economic aid to foreign countries.

From World Farm News, International Federation of Agricultural Producers, August 1954

Sustaining Formosa

The main problem for the Chinese Nationalist Government in Formosa, since it took refuge there in 1949, has been how to maintain a high state of military preparedness in the face of the relatively poor resources of the territory. The declared strategic interest of the United States in the area has been the Nationalists' salvation, both political and economic, and as a measure of that interest, over 50 per cent of Formosa's imports in the last two years have been financed with U.S. economic and defence aid, leaving in 1953 a surplus of U.S.$30 million on the balance of payments. However, the problem of maintaining a defence force of over half a million and of providing for a population of nearly nine million—over three million bigger than in 1939—could not have been solved without a greater economic effort within the island itself. Under Japanese rule for 50 years after 1895, the degree of economic development reached by 1945 fell far short of needs. A new phase began last year with the initiation of a four-year plan of economic development, but *per capita* production in the island remained at a level well below that of pre-war.

Much of the island's economic activities other than agriculture is in the hands of government bodies whose revenues are a mainstay of the island's public finances. The new plan has set fresh targets for industrial production including mining and oil refining, and for agriculture, which is the principal source of national income and the provider of 90 per cent of Formosa's exports in the form of sugar (70 per cent), rice (9 per cent), tea (6 per cent) and fruit (5 per cent). The expansion of agricultural production was handicapped last year by the consummation of the 'land-to-tiller' programme of agrarian reform, which has been set in motion in an effort to match the appeal made by the Communists' land reforms on the Chinese mainland.

Land Reform

This programme was started in 1950 with the compulsory reduction of land rent to a maximum of 37.5 per cent of the annual main crop, thus providing a 30 per cent increase in income for tenant farmers. The second stage was the sale of public land to tenant farmers in 1951, and the final stage begun last year is the Government purchase of excess land holdings from owners in half-exchange for 'land produce bonds' and half for shares in certain Government enterprises, and their resale to bona fide tillers. The programme allows landowners to keep only three hectares of paddy field or six hectares of dry land. Despite disruption of activity caused by the implementation of this programme, agricultural output last year rose by 15 per cent and was nearly 20 per cent above 1937. The prospects for agriculture have lately been less promising owing to falling world prices for sugar and rice, and to the problems of financing and disposing of surpluses of these products. Owing to the slackening of world demand for sugar, the area under sugar cultivation in Formosa is to be cut back

From Petroleum Press Service, August 1954

this year and the land given over to rice, of which three crops can be grown within the time needed for one sugar crop. This adjustment will, however, hit Formosa's main cash export crop and since the outlook for rice exports is possibly less hopeful than that for sugar, even larger scale United States aid may be required to sustain the economy. Japan is Formosa's main buyer and supplier of general goods.

Industrial Effort

Even more than in all other undeveloped countries, the Government in Formosa has a specially urgent interest in promoting industrial development, and it is claimed that last year's industrial output exceeded the Government's best expectations, rising 34 per cent on the year. But though a third higher than pre-war, per capita output is still lower than in 1939 owing to the much larger population at the present time. The year's main increases were in the manufacture of cement, textiles, fertilisers and in petroleum refining. These and most other industries, but excluding jute, flour milling and pharmaceutical products, are run by Government-owned corporations. The Government is now, however, seeking to sell some of these corporations to private interests and intends to use the proceeds partly to compensate landowners whose land has been taken over under the 'land-to-tiller' programme. The political uncertainty is not conducive to new private investment but given the few other opportunities that exist for such investment in the country, the Government hopes that the compensation moneys will be re-invested in industry. There is considerable unemployment and, inevitably, serious Government finance deficits.

The development of industry and motor transport has brought about an increase in the demand for petroleum products, which is now of the order of about 300,000 metric tons a year and compares with about 100,000 tons in 1936. Industrial power in Formosa comes mainly from electricity and coal. Electricity capacity continues to be expanded. It is already nearly double that of 1948 thanks largely to the harnessing of the country's considerable hydro-electric resources, which provided 93 per cent of the total of 1,562 million kWh. of electric energy used last year. Formosa's coal production is also being increased. In 1953 it reached 2.39 million tons compared with 2.28 million the year before, and 1.95 million tons in 1937.

FORMOSA: REFINERY OUTPUT
(Thousand barrels)

	1948	1950	1951	1952	1953
Gasoline	431	180	501	505	642
Kerosene	233	100	201	253	283
Distillate Fuel Oil	111	75	375	294	287
Residual Fuel Oil	685	340	824	705	820
Lubricants	—	—	—	20	5
Other products	141	35	79	110	167
Total	1,601	730	1,980	1,887	2,204

Oil

Production of crude oil in Formosa is only on a very small scale. Last year, about 3,600 tons were produced, nearly all from the Shukkoko area in the north central sector of the Western coastal plain. Efforts to find oil-bearing areas on Formosa's 14,000 sq. miles of territory date back to 1904; in the period up to the war the Japanese drilled over 250 wells, mainly dry. Most of the drilling has been done around Shukkoko where production reached a peak of about 20,000 tons in 1927. Despite large subsidies provided for exploration by the Japanese Government, the total annual output from this and other small scattered fields in the western coastal belt did not exceed 7,000 tons for several years before the second world war. During the war production of both oil and gas was increased from the Kinsui field north of Shukkoko and a pre-war annual output of about 15,000 tons of natural gasoline was being obtained. There is still a useful production of natural gas from this region.

With the Japanese capture of Borneo and the Dutch East Indies, the Japanese lost interest in expanding crude production from fields in Formosa, but in recent years attention has been re-directed to the northern part of the Shukkoko structure and active exploration has been undertaken by the local Government-owned Chinese Petroleum Corporation. With U.S. aid it has also been exploring in the south of the island, where a small discovery is reported to have been made.

Virtually all Formosa's oil requirements are imported as crude oil, but supplies of aviation gasoline, lubricants and specialised products are imported in finished form. The Chinese Petroleum Corporation, which handles almost all the petroleum trade in Formosa with the exception of aviation gasoline for international airlines, periodically calls for tenders for crude oil and certain other products. In addition to small local plants near the fields, the Chinese Petroleum Corporation operates a 16,000 b/d refinery at Kuohsiung, near the port of Takao in the south of the country, which treats imported crudes. This refinery was started by the Japanese during the war. It treats mainly Middle East crudes, partly imported in the Chinese Petroleum Company's own five tankers. A catalytic cracking unit is now to be added.

Internal demand is mainly for military and naval purposes. The number of civilian motor vehicles in Formosa is small, there being only some 6,000 passenger cars, 13,000 buses and 2,000 trucks. Most of Formosa's roads are unsurfaced, but two modern highways link the two main manufacturing and most densely populated areas of Keelung and Kuohsiung, which lie in the extreme north and south of the island respectively. There are but few roads in the sparsely populated mountainous eastern sector of the island.

A Micawber's World

BY FRANK FRASER DARLING

SPEAKING as a naturalist, I am as sour as a sloe, for as I see it, the Briton is living in a wasting habitat, and far from being sorry about it, or even conscious of it, he allows himself to be stuffed up with the notion that the world is getting better and better and that lots of folks living in an endless garden suburb with good plumbing represents the final delight for the human being.

Of course, it is a good thing to have a nice national park somewhere in Devonshire or the Peak District where the masses can see what is supposed to be beautiful country. The Reports have said lots and lots about values: you are supposed to get these in national parks when the fringes of forsythia and almond blossom become a slightly unsatisfying horizon. 'And really, Dr Darling', I can hear someone saying, 'I'm surprised you don't realise what a lot of nature there is in those well-ordered suburbs. There's another doctor who speaks on the wireless who says the density of thrushes and blackbirds and chaffinches and things is greater than it is farther out in the country.'

But Where is 'The Country'?

The country, did you say? Ah yes, I've heard of it. That's the out-back which is not beautiful enough for a national park. It is where food is grown for all of us in the suburbs. It is where the Ministry of Agriculture rules, and those know-alls the Agricultural Executive Committees. It is where the chemical firms apply science in the service of Man to wrest food for the millions from an unwilling Nature with a capital N. Oh yes, I've heard of it all right. I used to live there when I was young, hearing the corncrakes in the meadows in May and seeing the flowers in the hedgerows. In fact, I live in what is left of it now. I make a twice-yearly return of the numbers of combine harvesters, and the acres of wheat, and the numbers of heifers over two years not in milk but with their fingers crossed, and all that sort of thing, just on my few acres where, as I say, my only ambition is to hear the nightingale sing and watch the moon daisies blow. The corncrake went when we gave up the scythe and the slow horses in the mower; when we found that by adding a hundredweight or two of nitrogenous fertiliser to our well-known new grass mixture we could rip round and round with the tractor and cutter bar and literally cut the legs of the corncrakes from under them in May or early June when they are nesting. The only places where you can hear the corncrake now are those awful backward parts of the country like the West Highlands and Hebrides where the people are still pitifully scratching around with a scythe in August after the little birds are strong on their feet.

'Really, Dr Darling, I little thought to hear this kind of reactionary talk from you! You're surely not suggesting that the nation's drive for self-sufficiency in food production should be held up in the interests of the corncrake? Can you even suggest that a man should mow with a scythe when he can sit on an iron horse and be Olympian? And these moon

From The Listener, August 26, 1954

daisies are horrid weeds, anyhow; if you have many of them in a meadow, milk production will go down. I don't think I like you when you're being cynical like this. You disturb me.' Well, I'm not playing lip service to anyone just now, or trying to utter platitudinous hopes about the future. There is nothing more immoral than foolish hope, which is just kidding yourself—or trying to. We are living in a Micawber's world.

The population problem and food production have been bothering me for nearly twenty-five years. Perhaps I should say it did bother me, but now it has ceased to do so because I've grown old enough to be the complete cheerful pessimist, the unembittered *désillusionné*. I am not so ingenuous as to imagine that a divine Providence will find enough to feed an explosively swarming human population on this planet; I am not such a fool as to subscribe to the notion of the Point Four programme that everybody everywhere is going to get enough to eat; nor am I further going to boost the overweening conceit of the chemist by believing that this supreme conjuror in past performances is going to produce food from the planet like rabbits out of a hat. We are the rabbits.

As I see it, the only possible hope for us is to reduce the obsolete and excessive fertility of human population. We might do it here; France is doing it, but Africa and Asia are not, and—what we are much more frightened about—Russia is not, either. Candidly, I cannot see the world coming round to this idea in time. The trouble is man's political nature. No country is ready to limit population in any way whatsoever while its potential enemy is still increasing. No politician in this country is ready to say there are too many of us here; and it is political suicide to urge emigration. Indeed, emigration would be a mere palliative, even supposing there was transport enough to get us dispersed around a suffering Commonwealth. Lastly, no industrialist is going to favour the idea of a diminishing market for his plastic golliwogs or his bottles of sleeping tablets.

Beware of Technologists

To come back to what is happening inside Britain. Farmers cannot be philanthropists: they are hard-headed business men and they had a poor enough do years ago. The politicians, being frightened men, are ready to give a good deal of your money to increase home-grown food, not so much in terms of yield fifty or a hundred years hence, but right now. Politicians do not think more than a parliament ahead. The Government of the day gets a lot of practical men, so-called, to devise an agricultural policy. I like to remember Disraeli's definition of a practical man as he who can be depended upon to perpetuate the mistakes of his ancestors. The agricultural curricula of the universities and colleges of this country do not produce scientists so much as technologists. There is all the difference in the world between the man who is in science to seek truth for its own sake, that is, a scientist, and the one who is to get science merely in order to apply it, as he tells himself, to the service of man. The technologist is a dangerous fellow whose general education has been neglected. Technologists produced the ground-nuts debacle; scientists were not consulted because they would have said 'No' right from the beginning.

Those agricultural technologists, who have a tremendous amount of power, because we all get hungry every day and we are more troubled about our own dinner tomorrow than our great-grandchildren's a century hence, are hurrying along the final wrecking of the countryside as a place in which mankind can be contented, and not only your countryside but some black or brown man's as well. Man does not live by bread alone, but the technologist would have you think so and the politician knows it is bread which wins the votes. The voice of God is being stilled in this island when the footpaths are ploughed up and the barbed wire strung across them, when the shelter-giving hedges are being cut down and the little wastes cultivated. Modest country folk are not good at getting up and shouting, but many have told me that nowadays they never take a walk along the old paths of an evening, and on Sundays, because there is so little cover and so few flowers. There is less delight in life. That delight is spontaneous praise of God.

Need for Scrub Growth

But that is not all. Britain happens to be immediately south of the most southern point of the polar limit of trees. If you stand on a cliff on the north coast of Scotland, there is only ocean between you and the North Pole and farther across still to the northern coast of Siberia. Cold, windy ocean is not conducive to tree growing. I have seen better coniferous trees growing north of the Arctic Circle in Alaska than we could hope to grow in much of Scotland, and some fast growing leafy scrub in areas much farther north than our Shetland Isles. That scrub, whether in Britain or Alaska, represents a reserve of natural fertility best left intact until you are sure how to handle it as a continuing resource. This fact was unknown to, or unheeded by, our prodigal ancestors, who squandered our woody growth, but nowadays it should make us the more careful to preserve our scrub growth so that it can do its part in rebuilding fertility. Yet we are losing woodland every day, because it gives somebody or other a thrill to sit on a diesel elephant and push down trees and tear up the ground. Food production, don't you know.

Nature uses scrub to heal scars and to prepare the soil for better things, but the technologists will have none of that. Even as I was thinking over this talk, the Minister of Housing was exhorting local authorities to build houses as far as possible on areas of useless scrub, rather than on agricultural land. He is right in what he means—to use the less productive land for building houses—but he has picked up the common taint of thinking that scrub is useless. It isn't. The Department of Agriculture in Scotland is offering fifty per cent grants for the clearance of scrub in a country which cries out for ground cover, and the latest bit of wisdom from the Ministry of Agriculture is an apology for the rabbit in that it keeps down scrub growth. We would do better to make grants for the establishment of scrub on some of our deteriorated hill pastures. The Forestry Commission is failing to grow sticks of timber in some areas because the ground will have to get back into natural scrub before it will grow trees at all. They are a century or so too much in a hurry. The notion that the land should be allowed to do what it wants to do sometimes is not acceptable to the technologists. The land should be bulldozed into sub-

mission always, or we don't show our superiority to nature, and if it should fall down and bleed under such treatment, the technologists take cover in economic conditions, or they will blithely say that nature let them down by petulantly throwing a drought or something.

If you want to see trees growing easily, have a look round the New Forest, where you can see poor land doing a wonderful job of production because it has never been anything else but forest. Thanks to that despotic saviour of this region, William the Conqueror, that poor land was allowed to continue to grow the kind of vegetational cover to which it is best adapted.

Grass Revolution

Modern methods of cultivation need plenty of room, so hedges are being grubbed without regard to soil wastage, and even the new revolution in grass husbandry is not taking care of our hedges. When I speak of the revolution in grass husbandry, I mean the remarkable achievement of what is generally known as the Aberystwyth school of research workers, who have selected grasses and bred them so carefully that you can get leafy strains, early and late strains, and so on. Meat and milk production have been raised to levels undreamt of thirty years ago. What is called natural grass, wild grass that has grown of its own accord, contains a great variety of grasses and herbs. The new grass mixtures of only a few chosen grasses and clovers are sown and called leys —the old Saxon word for a pasture clearing in a forest.

The new grass leys mean a much greater density of stock on the land, and these leys are so short of the inconsiderable little plants which cattle like, that the animals are punishing the hedgerows, seeking the remnants of an earlier and more diversified flora. Also the hedges themselves are being nibbled till they lose all sheltering quality, and it seems only common sense then to grub them out. Hedgerow timber, that great beautifier of the countryside and giver of shade to stock, is being felled without mercy on the grounds that such trees rob the crops and their roots impede the implements of cultivation. The poor cattle themselves are in constant danger of 'bloat' in May and June—a horrible affliction when the stomach blows up tight with wind; but remember that the possible infliction of such suffering is all right: it is for greater food production and all that. Cattle like picking and choosing from a herbage of variety, and how right they are! It keeps their tummies in good order.

One other point about density of cattle on improved pastures: the new—and in general humane—method of keeping cows is to have them outside all the year round. All well and good, but you can now carry so many more cows that some heavy land is being puddled by the constant treading. Such pastures in the following year look what they are, thin and broken. Don't blame the grassland wizards, because this kind of thing is just misuse of the methods they are devising, but such bad husbandry is getting commoner. How different is such a soil from one carefully worked, or from the crumbly, gentle delight of a forest soil!

Devastation of the human habitat in one form or another is going on over the whole world, as well as in our own country. The physical and psychological catharsis of felling

trees and clearing scrub—bashing and destroying—is given the cloak of righteousness, that it will produce more food for a species for which continuous increase is looked upon as the most laudable of all endeavours, for is not God created in man's image? Half the social troubles of this country are due to over-population, but we don't put it that way; we say there are not enough houses and community centres and homes for the aged. The horrible phenomenon of Mau Mau is a direct function of over-population and habitat devastation, but it has to be called almost anything else.

Civilisation flowers when populations are at an optimum in relation to resources, not when we are like rabbits in an eaten-out warren. Our animate natural resources are dwindling, our numbers are past any reasonable optimum, and we have got it firmly into our silly heads that more cultivation of marginal land that had better be left wild is going to save us. It will not. The hydrogen bomb may yet be the greater mercy. The world I would like to live in is one in which it is a joy to be alive, even when I may be suffering, not one in which the sweeter, gentler, more ameliorative manifestations of nature have been bulldozed out of existence, and in which we grow increasingly fearful to live.

Reciprocity is not Good Enough

WHAT is needed to promote foreign trade and increase our exports of farm products is to take our own trade barriers down. Foreign peoples cannot buy from us, cannot take our products on other than a give-away basis, unless we let them sell to us.

The idea that the elimination of trade barriers must be negotiated, that we cannot afford to eliminate our tariff duties and other trade restrictions until other countries eliminate their trade barriers, is an economic fallacy. Other countries cannot sell to us without buying from us. Therefore, to take advantage of the elimination of our trade barriers, they would have to reduce or eliminate theirs.

Mind you, international trade, on a truly-business, buy-and-sell basis, must be two-way. We cannot sell to foreign peoples without buying from them, and they cannot sell to us without buying from us. Any strong country that takes its trade barriers down will start the crumbling of trade barriers the world around.

Reciprocal trade agreements, about which there is public discussion again, help to encourage trade. But reciprocal trade agreements are capricious. They depend upon the whims of politicians, who use them for diplomatic manoeuvring. They may be a step toward freedom of trade, but they do not provide it.

There is little use for the United States to look for increased foreign outlets for farm products on other than a give-away basis until we take our trade barriers down and let other peoples trade their products for ours. What the world needs is freedom of trade, and the country that starts a movement in that direction by letting down its own trade barriers will profit immediately by increasing its own trade.

From the Nebraska Co-operator (Omaha, U.S.A.)

The Breakdown and a Solution

Before 1914, the main risk which an exporter took was that his buyer abroad might prove to be dishonest or incapable of paying. That a buyer might be both honest and solvent, and yet that the exporter here might not receive payment, because a foreign country had no foreign currency and put an embargo on payments, was so remote a risk as to be relatively negligible. But after the first world war suspensions of payment by Governments became a serious risk; and since the second world war a major one.

Realising this trend, the London Chamber of Commerce set up a Special Committee on International Payments as long ago as 1931 and, from time to time since then, this subject has again been reviewed by the Chamber, and the broad conclusions reached some twenty-three years ago have on more than one occasion been reaffirmed.

It will be appreciated that those engaged in international commerce cannot be satisfied with anything less than the establishment of a system of multilateral payments covering the whole world: only when such a system is established and functioning can goods and services move freely from country to country. This was possible prior to the first world war and to a less extent during some of the inter-war years, but has not been possible during the eight years which have followed the second world war.

The Major Economic Problem

To remove the Money Curtain which effectively divides the dollar area and the rest of the free world is, in this Chamber's submission, the major economic problem of today, beside which all other economic problems sink into relative insignificance.

It seems to be tacitly assumed that the only way in which this highly desirable objective can be realised is to restore the nineteenth century technique, under which national currencies were freely bought and sold for what they would fetch on the international exchange market. In this Chamber's view the old technique is out-of-date and cannot be restored and therefore if the objective of freer trading is ever to be reached, new techniques must be found in harmony with twentieth century conditions. It appears to this Chamber to be entirely unrealistic to advocate the restoration of a system which has been completely outmoded by the immense revolutions which have taken place in the methods of production and distribution; in the sphere of politics; in the social sciences and, more particularly, in the organisation of labour.

It was recognised by this Chamber some twenty-three years ago that many of the factors which had made the nineteenth-century system of international payments work, had either disappeared or had become greatly modified; and it is evident that the second world war completed what the first world war had begun. It may therefore be well to consider what those factors were.

The Nineteenth-Century System

The United Kingdom up to the outbreak of the first world war was

Extract from Memorandum of Evidence prepared by the London Chamber of Commerce for the Standing Committee of Canadian Trade Relations of the Canadian Senate

the World Creditor. Being unable to grow enough food for her people she was obliged to import very large quantities annually, as well as practically all her raw materials with the exception of coal. The system of international payments which she evolved was based upon these quite exceptional and peculiar circumstances.

The Industrial Revolution had taken place in England at the end of the eighteenth century. She was the workshop of the world throughout the nineteenth century, and not until the beginning of the twentieth-century did any rival appear. The nineteenth-century system of International Payments which in its simplest terms was a system of international free trade in national currencies, i.e. convertibility, could only be made to work if each nation, of the one part, and the rest of the world, of the other, could, by one means of another, be kept in approximate equilibrium. This the United Kingdom made it is business, as World Creditor, to enable every other nation to do.

The Chamber wishes to emphasise that it is not attributing any special virtue to the United Kingdom in this respect. It was a system which suited the special circumstances of the United Kingdom and of the rest of the world at that time. The United Kingdom had no cause to fear competition with its domestic manufactures by imports of manufactured goods, since the other nations, by and large, only had foodstuffs and raw materials to offer. Under a system of free trade, then, the United Kingdom received annually imports of foodstuffs and raw materials which were double the value of her exports of manufactured goods. Half of these imports were payment for her exports, and the other half were in payment of interest on the loans which she had made, and for shipping and banking services, etc.—the invisibles. Her willingness to accept imports to double the value of her exports was the first provision made by the United Kingdom as World Creditor to enable the other nations of the world to maintain their balance of payments.

Loans from U.K.

The second provision was that if a nation had a bad harvest and for that or other reasons was unable to pay with its exports for its imports plus interest on its loans, it came into the London Market for another loan. It has been estimated that the United Kingdom lent £100 millions a year for some sixty years, i.e. some £6,000 millions by simple addition. At compound interest this sum would have been astronomical. On the outbreak of war in 1914 the market value of the United Kingdom's foreign investments was some £4,000 millions—not even the original £6,000 millions: the rest, for the most part, had been repudiated.

The truth of the matter is that a relatively high rate of interest was paid on these foreign bonds, so that by the time they began to fall on the Stock Exchange, the first holder who sold and took a loss felt he had not done too badly. The next man, in his turn, took his rate for two or three years and sold again at a loss, so that as a rule the loss, by the time the bond was finally repudiated, was spread over a very large and wealthy investing class. They felt that they had known the bond was speculative, otherwise there would not have been a high rate of interest, and that they had just been unlucky. The United Kingdom did in fact give away an immense amount of real wealth to

the world through making loans on which the debtors defaulted.

It will be appreciated that if a borrower in a foreign country failed to pay interest and amortisation to the United Kingdom this was not due to any obstacle being put in his way by the United Kingdom. The latter was ready and willing to accept an excess of imports over exports. Whilst defaults on a substantial scale did take place, as indicated above, many borrowers overseas paid their interest regularly and ultimately repaid the capital. Had this not been the case the private investors in the United Kingdom would not have been willing to lend their money abroad.

Why it Won't Work Now

Now it is quite obvious that if the present World Creditor, the United States, is going to insist on an excess of visible exports over imports every year, that system cannot work.

The first provision set out above for enabling each nation to maintain approximate equilibrium, namely, that the World Creditor should be prepared to receive an excess of imports over exports, is reversed, and the United States, by having a large excess of exports over imports, is itself the unbalancing factor. It necessarily follows that if the United States has a favourable balance annually with the rest of the world, the rest of the world must have an unfavourable balance with the United States: that is merely the other side of the same balance sheet. Nor can the second provision mentioned above come into operation under these circumstances. The world would be unable to earn enough dollars to pay the United States for her current exports, much less for interest on loans and for other invisibles as well: it is therefore unlikely that potential investors in the creditor nation would be prepared to make loans. In short, the nineteenth-century technique cannot possibly work in the second half of the twentieth century under the totally different circumstances of the new World Creditor and the changed conditions in the world at large.

It may now be well to review some of the other factors present before the first world war which have since either disappeared or become greatly modified, and which played an important part in the functioning of the nineteenth-century technique.

The Cunliffe Committee on Currency and Foreign Exchanges, in its first Interim Report issued in August 1918, and the Macmillan Committee on Finance and Industry which presented its Report in June, 1931, both described the orthodox theory of bank rate. The effect of a high bank rate on the internal situation was to curtail credit, to diminish enterprise and cause unemployment, and then that unemployment would tend to bring down wages so that costs of production generally would fall.

The Pound and the Dollar

When it was decided in 1921 to make the pound 'look the dollar in the eye' this was the policy which was pursued. The result, however, was not, as in pre-war days, to enforce a general reduction in wages, through unemployment, so strengthening the competitive position of this country internationally: instead, it set up a complex of internal stresses and strains which, amongst other things, led to the General Strike of 1926.

The growth in the power of organised labour, and the political and psychological consequences of

the prolonged and severe unemployment, not only in this country, but throughout the world, which followed the crisis of 1929/1931, have made it quite certain that no Government in any of the Free Nations will today deliberately bring about unemployment on the grand scale in order to force down wages.

Nor would this old technique prove acceptable to industry and commerce. Mass production implies mass consumption. The overheads in modern industry can only be met, and a profit made, when goods are being turned out at a high percentage of capacity.

Further, it was generally true before the first world war that the reason why a nation was out of balance was that its internal prices were too high in relation to world prices; and that if its products were cheap enough they would find a ready sale in the world's markets.

That the nations nowadays are not prepared to accept imports merely because they are cheap was fully demonstrated between the wars, when many nations took special measures to keep out Japanese goods because they were too cheap and so threatened their own domestic industries. Moreover, as has been said elsewhere, the problem of maintaining full employment is now a dominant preoccupation with all governments.

Nations Seek Balanced Economy —Pre-War

It is admittedly extremely difficult to adjust one's mind to the vast changes in the political, social and economic life of the world which have taken place since the first world war, and to abandon long held and once true theories and beliefs. If, however, we are to be realistic—and at this crucial turning point in the world's history it is essential that we should be—it is necessary to recognise, and to admit, that nations will no longer take imports merely because they are cheap. It is useless to say that nations should do so; that they would be richer if they would; the fact remains, in the world as it is, the nations don't and won't. It may be true—but if true it is irrelevant—that a country which excels, e.g., in the production of dairy produce and wool should concentrate on those productions and should export them, buying in return the manufactured goods it needs, and that by this international division of labour the world's wealth would increase. In practice, however, rather than see those of their sons and daughters migrate who are not content to be dairy farmers, the people of that dairying country will prefer to pay more for possibly inferior but locally produced goods if, by so doing, they can keep their children and their grandchildren round them and, through sacrifice, build up a well-balanced economy.

Dependence on Imports

The first world war gave a great stimulus to industrialisation in all countries since, for the first time, they experienced the discomfort and hardship of being cut off from their overseas sources of supply. They also became acutely aware of the defenceless position of a nation which, having no industry of its own, was entirely dependent on imports even for rifles and ammunition. Thus industrialisation has become a political matter, apart from purely economic considerations.

Between the wars, so long as loans from the United States enabled the economically weak nations to balance

their accounts with the world, international convertibility of currencies was somewhat precariously maintained, but with the withdrawal of American loans from Europe in 1931, Germany, Austria, Italy, Turkey, Spain, Hungary, Bulgaria, Yugoslavia, Roumania, Czechoslovakia, Greece, Denmark, Latvia, Estonia and Portugal (the last two named confined it to capital transactions from 1933-34 onwards), joined in 1936 by Poland, adopted exchange control for the rest of the inter-war period.

Whilst the United Kingdom itself was forced to abandon the gold standard in 1931 the pound sterling remained convertible into gold and other currencies throughout the whole period between the two world wars but only at the expense of widely fluctuating exchange rates. Several South American Republics also adopted exchange control in 1931-32, and after a period of relaxation, intensified it in 1937. There can be no doubt that so long as the debtor nations had been able to find a ready buyer of their exportable surpluses and, in times of difficulty, obtain a loan on the London Market to tide them over, they had not appreciated the weakness of their position but, in the inter-war years, thrown back upon their own resources, fear gave an immense stimulus to the desire for self-sufficiency. If they imported goods there was no guarantee that they would be allowed to pay for those goods with their exports. Instead, the money which they had paid for their imports might be used to buy not their exportable goods but their existing fixed assets—their land, their industries, their newspapers, hotels, cinemas, etc. This was a prospect which no country wishing to maintain its economic, and therefore political, independence could contemplate with equanimity. This further peril then was met by Bilateral Trade Agreements, Barter Deals for the exchange of goods against goods, quotas, etc.

Since the War

The fear of having their existing fixed assets bought by foreigners was also a potent factor in encouraging nationalisation as the one sure means of ensuring that industries did not fall under foreign control. Since the second world war the fears which are here described are still potent. All the nations are busily engaged in trying to build up, through industrialisation, a balanced economy with the maximum possible degree of self-sufficiency as their objective. To attempt to force them to abandon their protective mechanisms, exchange controls, quotas and the rest, will merely convert fear into panic. Only by removing the very real perils against which these mechanisms are their defence can that fear be eliminated and humanity saved from the colossal economic waste which economic nationalism, carried to its logical conclusion, would represent. Violent gusts of wind merely cause a man to wrap his coat more tightly round him, but he will himself remove it when he feels the heat of the sun.

Under the existing conditions the United States each year earns an immense quantity of foreign currencies which she does not wish to use for the purpose of buying imports in return. So long as the countries in which that money is legal tender maintain exchange controls, the American owners of it cannot offer it for sale to other Americans for what it will fetch in dollars. As other

Americans would have no use for it either, it would clearly fetch very little in dollars.

In other words, if it were not for exchange controls, the exchange rates of those foreign monies, in terms of dollars, would be knocked down to next to nothing and their economies ruined. Nor is it to be thought that when their currencies had been thus devalued in terms of dollars, their goods would be allowed to flow freely into the U.S.A., and so restore balance. If, for example, the British £ depreciated in terms of the dollar to a point where our goods did defeat the American tariff, it would be represented in America that they were produced by sweated labour, and so they would appear to be, if British wages were converted into dollars at the depreciated exchange rate. The United States would thereupon stop British imports. These, then, are the reasons why the non-dollar nations are not willing to remove exchange controls.

U.S. Foreign Investment Widens the $ Gap

The only other course open to American owners of that foreign money is to use it to buy up fixed assets in the country where it is legal tender. Those investments will produce interest, dividends, etc., and these will be added to the excess of foreign currency earned by the United States in the next year so that the amount of foreign fixed assets which will have to be bought as year follows year will progressively increase. This type of foreign investment by the U.S.A. far from helping to close the dollar gap, will, on the contrary, tend to widen it.

Two Forms of Investment

A clear distinction should, it is submitted, be drawn between two very different forms of foreign investment. The first consists of putting a new capital asset into a foreign country on loan, an asset which that country could not have afforded to buy out of its current foreign earnings, and which is calculated to increase the economic strength of the borrower. To put capital into a foreign country to develop latent resources; to send men with skills not possessed by the inhabitants of that country, are forms of foreign investment which the recipient country, if alive to its best interests, should welcome. The second is the type of foreign investment to which reference has been made in the foregoing paragraph, where a country exports current consumer goods, refuses to accept payment by taking imports either directly or indirectly, i.e., either from the country to which it sold or from some third country, but instead uses the proceeds of that sale to buy up the existing fixed assets of the country to which it sold its goods. This, far from increasing the wealth of a debtor country by increasing its productive equipment, merely results in the ownership of its existing capital assets passing out of the hands of its own nationals, and into those of foreigners. Whilst no great harm may be done if this happens on a small scale, it can only create extreme tension, ill-will and fear, if it reaches dimensions which threaten the economic, and therefore the political, independence of the nation which suffers from it.

The passage of time has merely confirmed the correctness of view reached by the Chamber of Commerce twenty-three years ago. So long, however, as the nations refuse to recognise what is admittedly an extremely uncomfortable fact, and

persistently reiterate their determination ultimately to restore the nineteenth-century system, they will not be prepared to consider possible alternatives which would work in the very different world in which we now live.

Technique for Twentieth Century

In its suggestion for a twentieth-century technique, the Chamber did not aim at theoretical perfection, nor did it suppose that any system it might put forward would remove, as by a magic wand, all the economic ills from which humanity suffers. Its modest aim was to find a system which would enable the traders of the world to go about their business of exchanging goods and services between the nations on a multilateral basis. If this objective was to be realised it seemed to them that certain fundamental ills must be cured, even if lesser ills must be endured.

A New System

The Chamber felt therefore that in seeking a new system which would work in the modern world it was necessary to return to first principles.

In earlier days, international trade was a matter of simple barter. The introduction of money was designed to facilitate the exchange of goods of one country for the goods of another since it enabled a three-cornered deal to be done. It enabled a merchant to sell his goods in one country, receiving their money in exchange, then to buy goods in a second country, paying for them with claims on the goods of the first country, i.e., the money of that country. The bargain was not complete until the second country utilised that money to buy the goods of the first country. It will be seen that implicit in the transaction was the conception of an exchange of goods and services between countries to their mutual advantage: that the giving of money was merely a convenient halfway house towards the final completion of the transaction.

This same conception is to be found in operation internally in every country. If a man in Canada owes another a dollar, he has discharged his debt when he gives him a dollar. As a piece of paper a dollar is worth nothing. Its ultimate value is that, being legal tender in Canada, it will exchange for Canadian goods. Whether the creditor does in fact exchange his dollar for Canadian goods or not is no concern of the debtor. He is not called upon to see that his creditor does, in fact, exercise his right to buy Canadian goods with that dollar. It is recognised that you can take a horse to the water but you cannot make it drink; and in no country is one citizen expected to remain in debt until his creditor spends the dollar he has given him. Here then is the fundamental weakness of the Nineteenth-Century System of International Payments.

Paying for Exports

Whilst in theory every nation now agrees that it cannot be paid for its exports unless it is prepared to accept equivalent imports, in fact, no nation has hitherto faced the logical corollary. This corollary is simple, namely that, should the exporting nation be unwilling to exercise its claim to the goods of the importing nations, it is illogical that the importing nations should be treated as though they were defaulters, and subjected to all sorts of pains and

penalties. The importing nations cannot, in fact, compel the exporting nation against its will to accept imports, nor should they in equity be required to do so. To the extent that they are able to force their goods into a country which is an unwilling buyer they must expect to make a very bad bargain. And to the extent that they are prevented from making a sale, even on unfavourable terms, they find themselves with an unpayable debt—unpayable not because they are unable or unwilling to pay but because their creditor refuses to take payment. A transaction which they had envisaged as a mutually advantageous exchange of goods and services with a neighbour, when they made their purchase, is frustrated half-way through by the unwillingness of that neighbour to accept their goods and services in exchange (or those of a third country in the case of multilateral trade); instead they find themselves in the position of insolvent debtors. If they have a freely convertible currency, it can be sold for what it will fetch, and so be knocked down on the foreign exchange market. If, through exchange control, they protect themselves against this injury, they may find that the money which they handed over in payment for their imports, instead of being used to buy their exports, may be used to buy their existing fixed assets, or in order to prevent the money which should have gone to buy their exports being used for either of the foregoing purposes, they may be forced into borrowing it at interest. This last course merely postpones but does not solve the problem: it makes it worse.

Easing International Tensions

These are perils connected with international trade against which nations try to protect themselves as best they may by all manner of restrictive practices and by doing their utmost to become self-sufficient. International trade, which should be a mutually advantageous thing, and a bond of union between nations, has been perverted into a form of cold war conducive to international ill-will and fear. These then are ills which must be cured if international tension is to be eased, the movement towards extreme nationalism halted, and the money barriers which now prevent the Free Nations from exchanging their goods and services removed—especially those between the Dollar and Sterling Areas.

Many Techniques

No doubt there are many techniques which could be employed to give effect to the fundamental principle enunciated above, namely, that a nation which exports goods and services to the world should receive in return nothing—more nor less—than a claim to the goods and services of the world. Whether or not it then chooses to exercise that claim and import the goods to which it is entitled should be its own affair. It could either do a small export trade and a small import trade, or a large export trade and a large import trade. These are matters which it alone could decide. It could also, if it so wished, do a large export trade and a small import trade, but in that case it must recognise that the surplus of its exports over its imports constitutes from its point of view a form of public works abroad in order to keep its own people fully employed. That again is purely a domestic matter. It might equally well do public works at home. It could either pay men to make goods, which are

then exported and nothing comes back in exchange (public works abroad), or it could pay men to dig holes and fill them up again (public works at home). The essential change from the old technique must be that a nation which decides to do public works abroad, i.e. export in excess of its imports, must not thereby be given the means to inflict injury on the economies of other countries, whether by knocking down their exchange rates or by buying up their existing fixed assets.

Back to Bills of Exchange

The particular technique, to give effect to these principles, which commended itself to this Chamber many years ago, had the advantage of great simplicity, and further, did not require the businessmen of the world to learn new methods: the Bill of Exchange which has been in international use since the fourteenth century would continue to be used. Moreover, it would enable nations with very different internal economies and at different stages of economic development to trade together on a mutually advantageous basis. Under the proposed system a nation which takes the imports from the world to which it is entitled will be paid. A nation which does not wish to take those imports will not be paid: in fact, as is now generally recognised, it cannot be. Therefore the system is merely being realistic in recognising fact. It is not asking any nation to forego anything which it has at present, except the power to harm other nations, without helping itself.

Restoring Discipline

Moreover, the system would restore international financial discipline: this was one of the good features of the Gold Standard. A nation which consistently imported from the world beyond its ability to pay for those imports with acceptable exports to a willing buyer—and willing is the operative word—would soon destroy its international credit. A nation which indulged in internal inflation would soon find itself getting out of balance in its international payments, and under the new technique it could not alter its exchange rate unilaterally as it can at present.

Further, the adoption of this system would be a most effective answer to Communism. It is represented to the Marginal Nations that under present conditions they have the choice between being over-run by the Communists, or being bought up by the Capitalists—a choice which is not likely to arouse great enthusiasm in their minds for either side. If, however, the free nations adopted a system embodying the principles here enunciated, that system would be so vastly more attractive than the Communists', that the U.S.S.R. would realise that in the event of war their Satellites would come over to our side at the first opportunity, and this in itself would constitute a great deterrent. One might go further and say that if, in fact, such a system did exist, the news of it might well penetrate into Russia itself. To eliminate economic tension and fear between nations has, with the arrival of the Hydrogen Bomb, become an urgent and vital matter. To abandon cherished sentiments and beliefs may be painful, but the consequences of not doing so may be disastrous.

Predictions

I. World Trade in 1960

GIVEN no major war, world trade is likely to go on expanding during the next six or seven years at much the same rate as the 3 to 4 per cent of recent years. Thus by 1960 the turnover of world trade, in terms of 1929 prices, may be about $110 billion—or about double that of 1929. This view is based on:

(1) The well-documented fact that world population is growing, and seems likely to go on growing, by more than 1 per cent per annum.

(2) The fact that whereas pre-war the terms of trade were against the primary producing countries, they have since turned in their favour. This means that these—mainly underdeveloped—countries enjoy a greater earning power than they did pre-war and can spend more on manufactured imports, particularly of capital goods.

(3) The belief, substantiated by facts, that, far from reducing international trade, greater industrialisation actually tends to increase it.

(4) The likelihood that U.S. imports will continue to grow, not only in proportion to the growth of U.S. national income, but probably at a somewhat faster rate; as the Paley Report showed, a growing tendency towards insufficiency in U.S. domestic production of certain raw materials may be expected in the next twenty years.

(5) The conviction that more liberal policies in international trade are gradually gaining strength.

(6) The certainty that soon, possibly before next June, a great step forward in freeing international trade from the strait-jacket of exchange controls will be taken when a measure of general convertibility is restored.

(7) The hope that the division of the world—by the Iron Curtain—into two mutually exclusive trade blocs will slowly break down, as both sides realise that each stands to lose and as international tension fades.

Prospects for Britain

But Britain's share of total world trade may fall quite seriously by 1960. This gloomy view is based on:

(1) Apprehension about Britain's ability to meet German and Japanese competition. Many markets, dominated by Britain's rivals before the war and since exploited by U.K. salesmen, are now slipping from Britain's grasp. Turkey is one example, and Greece another. Time and again this has been shown to be not simply a question of credits, or even of prices, but of sheer drive on the one hand and apathy on the other.

(2) An appreciation of the growth of the U.S.A. as a major factor in world trade. Apart from greater competition, this growth has also brought with it fears of instability in the U.S. market which would not only jeopardise precious U.K. dollar exports but also give rise to severe competition from hordes of high-pressure U.S. salesmen whenever business flags in the U.S.A.

(3) An analysis of the effect on Britain's raw material costs of the favourable swing in the terms of trade of primary producers. Heavily

From 'Trend', compiled by the Economist Intelligence Unit.

dependent on overseas sources of raw materials, U.K. manufacturers will have to fight hard to raise productivity if they are to keep pace with rivals better placed in respect of domestic resources.

(4) Fear that increased industrialisation in the overseas sterling area, which in some countries has been phenomenal, will adversely affect traditional U.K. export markets. Many of those countries which formerly absorbed large amounts of U.K. exports, moreover, not only now produce for themselves, but even compete with Britain in other preferential markets.

(5) A hunch that Britain's hold on preferential Commonwealth markets will be weakened further (a) by international agreements, such as G.A.T.T., that are opposed to preferences and (b) by action on the part of overseas Commonwealth governments to reduce British preferences.

(6) Expectation, based on post-war experience, that U.K. costs will prove less elastic than those of some of its rivals. The drawbacks of the Welfare State, the high proportion of obsolete or obsolescent machinery and buildings, the need (politically dictated) to invest in the Commonwealth, and the lethargy and lack of imagination among managers, all retard Britain's ability to meet foreign competition.

II. Science and Industry

THE PATTERN OF THE FUTURE

BY SIR HAROLD HARTLEY, K.C.V.O., M.C., F.R.S.

IN the fields where science, industry and agriculture meet, is a growing awareness that our resources are not unlimited. That was the thought behind the United Nations Conference at Lake Success, the Paley Report, the recent Mid-Century Conference at Washington, Fairfield Osborn's *Limits of the Earth* and Ordway's *Resources and the American Dream*. There are too, wider doubts in some men's minds as to the effects of man's power to alter his environment. A great microbiologist, Sir Macfarlane Burnet, in his Listerian Oration, *The Seeds of Time*, has pointed out how man's overriding demand for power over his environment and over his fellow men has led him into a series of ecological traps. 'Urban life . . . inevitably led to the spread of infectious disease . . . the science of applied microbiology has liberated us from that ecological trap but has led us into the other of overpopulation. Birth control can save us from the evils of overpopulation, but confronts us with the new trap of genetic deterioration.'

When you interfere with nature you must watch her reactions very closely with all the help that science can give. And it is no less true of the complex organisation of our society which modern science and invention have made possible. We must watch that, too, very carefully, to anticipate, as Ordway says, the danger that might arise if we encounter some limit unexpectedly. In the exploration of these complex problems in the sphere of government and world affairs, one can foresee the value of the electronic calculator, first in the analysis of trade and economics and later in yet broader fields.

From the First Fawley Foundation Lecture, University of Southampton, 1954
The complete lecture is sold at 2s. 6d.

In this first Fawley Lecture I tried to look at these problems of the future in a constructive light with reasoned optimism. We have used our resources prodigally in the past and their limitations will present serious problems within the next half-century. I do not believe those problems will prove to be insoluble if they are faced in time, although with the increasing strain on our resources it may be necessary to distinguish needs from wants and establish fresh priorities. With our greater knowledge and swift communications it will be easier to see the world's problems as a whole and the inescapable community of interest among nations that they involve. In 1942 I pictured the United Nations as a clearing house of surveys of national resources, the central point of world surveys of production and consumption, on which it would have been possible to base concerted plans for the future. With this divided world and the need to divert immense efforts to defence, that is all more difficult. Fortunately the organisations of the United Nations, like F.A.O., are continuing the invaluable work of the agencies of the League of Nations, and there are the plans for technical and financial aid from the richer to the poorer countries—America's Point Four, the U.N. Organisation, and the Colombo Plan—on which so much depends.

Our hope is in the growing realisation of the problems that lie ahead so that they do not take us unawares and of the need for action to meet them. One thing is certain: the material future will depend on the ever closer working of science and industry, and on the closer partnership of man with nature.

U.K. Overseas Investment

Nominal capital values of investments at the end of 1951, 1951 and 1952: *£ millions*

End of Year	1950	1951	1952
Government and Municipal Loans ...	789	769	781
U.K. Companies: Share Capital ...	583	567	580
U.K. Companies: Loan Capital ...	106	88	78
Overseas Companies: Share Capital ...	376	389	380
Overseas Companies: Loan Capital ...	165	170	167
Total	2,019	1,983	1,985
In Commonwealth Countries	1,133	1,125	1,123
In Foreign Countries	750	712	708
Not classifiable by Area	137	146	153

From Bank of England, 1954

Economics of German Reunification

A MULTITUDE of unprecedented problems will demand solution with the reunification of Germany's two parts, in which there has been such contrasting development ever since 1945. In recognition of this fact, the Federal Ministry for All-German Affairs has considered it one of its major—and most difficult—responsibilities to prepare for that event. Similarly, a number of individual Berlin researchers with their special and personal experience of conditions in the Soviet-occupied zone have concerned themselves with these problems, as has also the German Institute for Economic Research in Berlin.

The special committee appointed by the Federal Ministry for All-German Affairs has hitherto been in a position to inform the public of its findings only in part. It has now, however, published a complete report of its activities for 1952/53, a summary of which was announced by Under-Secretary Thedieck at a press conference on August 17, 1954.

The report makes clear that the committee proceeded on the assumption that re-unification will take place by peaceful means; that final settlement of the problems in question will be undertaken by an all-German body of legislators with full freedom of decision; and that the measures decided upon by such a body will be carried out through a corresponding all-German executive. Thus, the committee's work has been of a preliminary nature, collecting the data and doing the spade-work for a future, freely elected German National Assembly, which will be acting for the East Germans as well as for the West Germans.

How Much Freedom?

The committee agrees that controlled economy will have to be eliminated immediately upon reunification. The problem will then arise how to help the economy of Central Germany get a new start despite the possibly detrimental effect of competition with the far stronger economy of West Germany. Furthermore, the committee stresses the need of guaranteeing continuity of production. It also points out that in detaching the East zone's economy from overall Soviet control, it will become necessary—for instance—to have an immense amount of food on hand if the level of East-German supply is to catch up with West Germany's.

With regard to the particularly difficult and far-reaching problem of the re-parcelling of land, the committee does not recommend restoring former ownership in all cases. This, it believes, would be an over-simplification, since it might cause new hardship by taking away land from farmers who have cultivated it under the most difficult circumstances in recent years. The solution in this field will have to take into account a multitude of factors and will be largely determined by the need of achieving a sufficient and uninterrupted food supply.

The problem of plant management will be one of the most urgent. The instalment of trustees seems hardly avoidable, particularly in

From 'The Bulletin', issued by the German Federal Government, Bonn, August 26, 1954

cases where immediate return of an undertaking to its former owner is for some reason questionable.

Transportation and communication questions are among the less difficult of re-unification. High investments, however, will have to be made if Central-German railroads, for instance, are to achieve the degree of safety usual in West Germany.

How to bring into parity the two currencies of East and West has not yet been agreed. The committee is still working on the financial entanglements which this realm involves, striving to solve them in such fashion that the population of Central Germany will in no case be the loser.

Critique of the Randall Report

Meaning of Convertibility

THERE was widespread support at the Princeton conference of the Randall Commission's view that currency convertibility should not be pressed at the price of a general tightening of quantitative import restrictions and that efforts to diminish the use of both instruments of control should go hand in hand. Mere formal convertibility of currencies, in other words, should not be encouraged. Little if anything would be gained, for example, if the British Government gave non-resident earners of sterling the formal option to exchange sterling into dollars, but announced simultaneously: If this option is exercised to any great extent, we shall restrict our imports from your country until you find sterling scarce and cease using it to buy dollars.

Exchange Rates

All the participants recognized that the exchange rate was an important factor in the success of any convertibility moves. The Randall Commission disapproved of countries letting a currency 'find its own level', but said it was 'sympathetic to the concept of a "floating rate", which provides alternative methods of meeting trade and speculative pressures'. The possible meanings of these concepts were discussed at some length and almost entirely with reference to sterling. The majority agreed that letting a currency find its own level meant that authorities removed all restrictions (other than on capital movements) on the use to which their currency could be put by holders and permitted a free exchange market to set the rate without government intervention of any sort in that market. It was also generally agreed that the rate which finally emerged would balance the international payments of the country concerned. But several members argued that a market rate under present conditions, for sterling at least, would be much lower initially than the equilibrium rate a year or two hence and that this might involve such a deterioration in the terms of trade during the transitional period that no nation could be expected to regard the short-run real costs as anything but intolerable.

From International Finance Section and Centre of International Studies, Princeton University

Foreign Aid and Foreign Investment in the Indian Five-Year Plan

BY MAURICE ZINKIN

India is pre-eminently a country which is helping itself. Its Five-year Development Plan, begun in the year 1951-2 *and now well under way, is India's own plan; it is being carried out mainly from Indian resources and overwhelmingly by Indian hands and brains. The people are showing themselves ready to change time-honoured habits and attitudes in countless ways in order to become efficient. In such a society foreign money, experts and skill can perform a vital service.*

PANDIT NEHRU likes to remind his people that they must look to their own bootstraps for their future. Their development must come from themselves, not from outsiders bringing gifts.

Pandit Nehru is right. Societies can only develop, just as people can only be good, if such is their desire. Foreigners can help, and help a great deal, but only those who are already helping themselves. Development forced from outside has as many undesirable repercussions as goodness compelled by law. The native of South Africa, benefitting from a development he does not understand, and paying its price in *apartheid* because he does not understand, is as unhappy as the drinker in Prohibition Bombay who has given up drink, for fear not of sin, but of the police.

The reason is simple. Development means sacrifice, the sacrifice of doing without in order to save, the sacrifice of changing habits, however old and however much loved, if their productivity is low. Such sacrifices will only be made by a society which has accepted development as a first priority, in which not just a small *élite* but the broad mass of the electorate has come to place a higher income per head first among its objectives.

To Westerners this seems obvious. In their societies only the occasional crank questions the desirability of higher standards of living. In under-developed countries it is not so obvious. The Indian Gandhian, for example, places goodness above riches, so he emphasises the simple life, the self-sufficient village, the satisfyingness of handicrafts, the immorality of profits and the machine, the sin of drink, the superiority of abstinence to contraception; in none of this does the desire to obtain the fullest increase in the national income rank high. Yet it has influenced Indian policy very considerably, in the tax preference for hand-woven cloth, for instance, or the large revenue sacrificed in some states for prohibition. Even more important is the belief of the majority in many under-developed countries that what has been, must be, that it is fate, not their own efforts, which governs their standard of life; or the values of the upper classes in many of these societies which make, for example, ostentation a virtue and saving a degradation. In societies which do not save their own money, foreign money also will be spent rather than invested. Not much of Saudi Arabian oil royalties has gone for development; many a nineteenth-century loan to Latin America was embezzled or spent on

From Progress, Summer 1954

armaments.

Self-Help

Those who will not help themselves cannot be helped. It is therefore of the first importance that India is pre-eminently a country which is helping itself. Its Plan is its own. It is being carried out mainly from Indian resources and overwhelmingly by Indian hands and brains. It has been accepted by the Indian electorate; while still a draft it helped to win the last elections for the Congress, and now, though there is plenty of criticism on detail, there is very little in principle. Whether on irrigation or family planning, the public's chief demand is for more. Above all, the electorate has shown itself willing to make the sacrifices any Plan must require. Government revenues are up one-third since 1950-1, the year before the Plan began, and the increase has come largely from taxes on necessities. The rich are almost as heavily taxed as in England. The poor pay on nearly everything they buy, from soap to cloth, from cooking fat to tea. Yet there is less noise made about taxation than in the relatively much less lightly taxed United States. The public accept that development must be paid for. They have not even really criticised the two big risks the Finance Minister has decided to take this year, the risk of only increasing his Defence Budget a little, despite American military aid to Pakistan, and the risk of inflation involved by his very considerable deficit financing.

More important still, the public

EXTERNAL LOANS AND AID TO INDIA

Loan and aid received till March 1954:	*£ million*
U.N.O.: W.H.O. Aid	0.725
U.N.I.C.E.F. Aid	3.316
World Bank Loan	36.000*
U.S.A. Wheat Loan	67.800
U.S.A. Aid:	
Technical Co-operation Assistance	65.770
Ford Foundation	1.546
Rockefeller Foundation	0.061
Aid under the Colombo Plan:	
Canada	15.143
Australia	5.900
New Zealand	0.250
Norwegian Aid	0.203
Total	196.714
Loan and aid expected in 1954-6:	
Provision in 1954-5 Budget Estimates	33.75
Estimate for 1955-6	33.75
Grand Total	264.214

*Of this amount £17.43 million was received before 1951-2, the first year of the Plan.

has shown itself ready to change time-honoured habits and attitudes in a thousand ways in order to become efficient. The Southern Brahmin, for instance, has taken to business. Graduates are becoming salesmen, matriculates mill-hands. The whole educational system is being steadily reorganised to give it a technical and vocational bias. In the village the villager is accepting improved seed and better fertilisers and the Japanese method of growing rice at a pace that would have been impossible before the war. The same villages will today contribute half the cost of a school or a road which two generations ago would have looked on them as townsman's luxuries.

In such a society foreign money, foreign experts, foreign know-how can do a job of real value. India wants to advance and foreigners can help. India has a Plan and foreigners have their part to play in it, through aid and loans, the private corporation and the individual technician.

The only difficulty is that so far foreign participation has been so limited. In the Government sector, against a plan of about £1,700 million, and assuming that aid and loans in 1955-6 will be of the same order as those expected for 1954-5, aid and loans by U.N.O., foreign governments and the World Bank together add up to only £265 million. The sterling balances release cannot be counted, much though Indian opinion has appreciated the effort Great Britain has made in repaying its debts, for they are only drawings by India of its own money, and money which is worth less than when it was lent at that.

Priorities

All put together it is not much, whether it is compared with the help given the Philippines, or what the Kuomintang has wasted, or even with private investment in Canada since the war. India could do with very much more. Nor, despite the modern fashion of talking about the limitations on the capacity of the under-developed countries to take in capital, would India have any difficulty in absorbing much more. The Plan has now got fully under way. The priorities, though one may disagree with some of them, have been laid down. The administrative machine, though it could obviously still be improved, has been built up. The pace of spending has been increasing; twice as much is to be spent this year as in the first year. Provided it is remembered that for many programmes what is needed is rupees, not foreign exchange, consumer goods, not capital goods, India's ability to absorb assistance is very large indeed. There is, for example, a directive in the Constitution that free primary education must be provided for every child by 1960. That will cost many millions, but they will be millions in teachers' salaries and timber for schools, not for bulldozers or foreign technicians. To help India achieve this great end might well mean providing dollars or pounds for such apparent inessentials as coconut oil for the teacher's hair, or a tin to put his wife's face powder in. The problem would be one of mopping up purchasing power in general, not just stopping a deficit in the balance of payments.

Foreign Famine Relief

Relatively small though foreign participation has been, it has frequently had a value out of all proportion to its size. In 1951 when India was faced with a terrible

famine in Bihar and rations had to be cut to 9 oz. of cereals a day—rationing began at 16 oz.—it was the American wheat loan which enabled Government to empty its godowns in the confidence that help was coming, so that only half a dozen starved where half a million might have died, and when the wheat did come, late, it helped the Government of India to create the reserve stock without which the steady decontrol of the last two years might not have been possible. Australia and Canada too have given part of their aid in wheat, for until this year cereals have been India's most urgent requirement. Again, much Canadian and American aid this year is being given as locomotives; and lack of rolling stock has been one of the main bottlenecks holding back the improvement of the railways, without which no development is possible, and on which therefore so much effort has been concentrated in the last few years. America is providing, too, 200,000 tons of steel, which will not only in itself relieve one of the worst development shortages but will also enable the Government of India from the counterpart money to subscribe to a new Industrial Bank which the World Bank is sponsoring.

Indian commercial banking follows English banking traditions, and the Macmillan gap is far, far worse in India, with its half-developed capital market than it ever was in England. The new bank will, therefore, be particularly useful; and the participation of the World Bank will be of value not only for the money the World Bank is to provide but even more for the experience and the determination to resist playing politics its taking part will give the new bank; a purely state bank, even in India which is fairly austere in these matters, might have found political pressure sometimes difficult to resist.

It is indeed one of the main advantages of all outside gifts and loans that they involve a third party point of view. Because neither a government nor its citizens can, or should, forget politics, it is sometimes difficult to get such a view at home. Outside scrutiny, outside experts, can thus on occasion help to restore a balance or to put a priority right. For example, the World Bank's willingness to lend for steel, like Krupp's willingness to invest in it, has helped to give steel its proper high place in the Indian plan, although it has not the assistance of the pressure from the states and the electorate which guarantee, say, irrigation and technical education their priorities. At present, though Indian steel is amongst the cheapest in the world, Indian production is only half requirements, and only three-quarters of the severely rationed consumption.

American Contribution

The most striking of all examples of how much greater the value of aid can be than the mere money might suggest is the community projects. In money terms, American aid for these has not been large—10.8 million dollars. India is itself finding eight times as much. It is the American contribution in ideas and experience which has been of real value. The scheme is not an American scheme. It is firmly based on thirty years or more of Indian rural development. Already in 1937-9 the Congress Governments in the states, for example, had the idea of changing the emphasis of the revenue department from law and order to

development, and of placing the whole emphasis of the administration on raising the standard of life of the ordinary villager. What the Americans have provided is, above all, some remarkable men like Albert Mayer, who has been associated fom the beginning with the pilot project at Etawah, and Clifford Willson, the head of the Technical Co-operative Administration in India.

These men have provided a new faith, based on an old American experience. It is that the Indian villager will respond to teaching just as the American farmer did, provided he is treated as an equal, and not talked down to from a great height, as inevitably so often happened under the old paternal Government. He should not just be *told* what Government *thinks* is good for him. He should be *shown*, so that he can see for himself, that it *is* good for him. Even the priorities are to be not those of some Government Department but those of the village itself. If what the village wants most is a school, first attention will go to a school. If the village wants a dam on the local streamlet, first attention will go to the dam. If the village wants most to be clean, first attention will go to drains. This may sound obvious, but it is in fact revolution.

Equally valuable is the insistence on dirty hands. Indians often have the same contempt for manual work as was so widespread in Europe before 1914. To insist that nothing is below anybody's dignity, that anybody can dig a ditch, or carry a chair or help fell a tree, gives the villager the feeling that Government is not just pushing about him but is sharing what he is doing, that he is doing it for his own good, and not just as a favour to a benign Government. It would be ridiculous to suggest that these were ideas unknown in India. Many Indians have them. Many Indians realise how necessary they are for the future of their country. But the Americans have helped both to spread them and to formulate them into slogans. After all, they have grown up with such ideas, and they alone can follow them without feeling a little self-conscious.

On the Government side, and on the whole, the foreign share in India's Plan has been admirable. Not every scheme has been of the highest priority, not every expert has been suitable. But there is always some error and some waste in every major enterprise. What is surprising is not the occasional failure but the very high percentage of success.

Outlook for Private Investment

The private enterprise side is less cheerful. Foreign private investment in India before Independence was very large, probably at present values not less than £500 to £600 million. There was therefore bound to be a certain amount of disinvestment, for two reasons. Firstly, many people who considered the political risk low while there was a British Government thought it higher so soon as there was an Independent Government. The fact that this was a wrong judgment did not stop its being made on a sufficient scale to produce a good deal of selling. Secondly, much of the investment was individual, and individuals on occasion die or need money. This produces a steady trickle of selling and when shares, in a rupee company particularly, come to be sold, the tendency must obviously be for them to be bought by Indians, both because most of the

people who buy on the Indian exchanges are Indians, and because a given return always tends to seem more attractive to a native of the country than to a foreigner. It is not surprising therefore that disinvestment since 1947 has been very considerable. The latest government figures are £105 million, of which £12 million has been industrial and trading and the rest has been the repatriation of such items as savings, or Provident Funds on retirement.

New investment, moreover, is taking a quite different form from in the past. England no longer has the sort of private capital which fifty years ago flowed so easily into, for example, Indian tea estates. A purely Indian company would now find it impossible to go on to the London market and sell equities. Nor are the managing agents now expanding at the pace of fifty years ago. There are less opportunities for that sort of expansion and the managing agency as an institution is under too much pressure. Partners can no longer make the great fortunes of the past and the temptation is to try and carry the great institutions which have been built up through the present stress rather than to increase risks by launching out in other directions.

Such growth in foreign investments as has occurred since the war, therefore, has mainly been by the big business—Unilever or the oil companies or I.C.I. or Krupps-Demag or American Cyanamide or Oerlikons. Sometimes these investments, as in the case of Unilever or the oil companies, have been made entirely, or almost so, with foreign capital; and these are doubtless the most valuable cases, for they leave Indian capital free for other forms of development. They are not, however, the most satisfying ones for Indians, who feel that they control more of their own economic destiny if Indian money has a share in as many as possible of the enterprises operating on Indian soil. There is, therefore, a wide range of instances, from bicycles to textile machinery, and from machine tools to explosives, where a foreign company is found in association with an Indian company or the Indian Government. The foreign share is often a minority one; sometimes, indeed, as where the other partner is the Indian Government, it is quite small. But whatever its size, foreign private investment of this sort assists in economic development to an extent quite out of proportion to the actual money invested.

The big foreign firm brings with it its know-how, its research, its management tradition, and its preference for the long run rather than the short run approach to investment and to profits. All of these attitudes are recent, some of them very recent, in their home countries. These companies' value to India lies precisely in the fact that they bring the most modern forms of economic organisation and particularly the most modern of all—the professional manager—to an Indian economy which otherwise is still often more comparable with the United States or Europe of a century ago than of today.

What has been done by outsiders for India's Plan so far has all helped. Some of it has helped a lot. What is now needed is, quite simply, more of the same medicine. If India were to get foreign capital, as aid, as loans, or as private investment, on the scale on which, say, western money has

[*continued at foot of next page*

Economic Developments in Eastern Europe

WHILE it remains difficult to measure levels of production, consumption and real wages in the countries of Eastern Europe, it has been clear for some time that productivity and production in this region have increased substantially since the war. A considerable part of this increased production has been devoted to a rapid development of heavy industries, which resulted in shortages of resources necessary for the expansion of consumers' goods industries, particularly agriculture. To accentuate the rate of industrial development, governments in these countries adopted policies to ensure that consumption would not for the time being rise beyond the level compatible with the attainment of targets set for other sectors of the economy.

During 1953 a number of important changes in policy were, however, announced, many of them the result of developments over the past few years.

Wages and Prices

Measures concerning wages and prices have played an important part in policies designed to stimulate increases in productivity and in labour effort as much as possible, while restraining the general level of real earnings and of consumer demand to conform to planned consumption levels. Standards ('norms') of labour performance have been raised from time to time, partly on the basis of the special efforts of Stakhanovites, 'activists' and other shock workers and of 'socialist competition' between plants, plant departments and 'workers' brigades', partly on the basis of work study and partly in step with the introduction of more and better equipment. In agriculture compulsory deliveries of produce have been required from farmers in order to ensure high production, even though only limited amounts of manufactured goods and of agricultural equipment were made available to serve as economic incentives. In order to siphon off surplus purchasing power so as to restore an equilibrium between supply and demand, consumers' prices and taxes have been raised at various times and holdings of liquid resources have been reduced by currency reforms.

From the International Labour Office, Geneva, 1953

FOREIGN AID AND FOREIGN INVESTMENT IN THE INDIAN FIVE-YEAR PLAN (*continued from previous page*)

been poured into the Indo-Chinese war, democracy in India, already once protected by the surprising political maturity of the Indian electorate, would be guaranteed a second time by a steady improvement in their material condition. And, vital though the outcome of the war in Indo-China is, it is not more vital than the freedom and stability of one quarter of the people of the free world.

As far as can be judged from the available information on wages and prices in these countries, it seems that between 1950 and mid-1953 average real wages did not increase and, in some countries at least, they even appear to have fallen.

Cost of Living

Subject to important reservations as to statistical accuracy, the Economic Commission for Europe calculated the following indices of the cost of living for urban workers in some of the more advanced countries in the region (cf. *Economic Survey of Europe in* 1953, op. cit., p. 64):

autumn, average real wages may have regained the level of 1950. In Hungary the rise in prices was much faster than the rise in wages, and it has been officially stated that the standard of living had fallen prior to the revision of economic policy. In Poland the average real wage in 1953 was, according to the same source, some 15 per cent below the level of end-1950. On the other hand, because of increased employment of female workers, the average standard of living outside agriculture rose during the same period. Throughout these countries there has been a tendency towards an increase in the number of wage earners per family,

Indices	1950*	1951	1952	1953 June	1953 Sept.-Nov.
General:					
Czechoslovakia ...	100	121	121	132	126
Hungary.........	100	176	171	185	168
Poland	100	—	159	214	205
Food:					
Czechoslovakia ...	100	138	142	162	157
Hungary.........	100	209	200	226	206
Poland	100	—	163	254	251

*December for Czechoslovakia and Poland, June for Hungary.

According to the same source average earnings of industrial workers tended to lag behind the rise in consumers' prices. Thus, in Czechoslovakia, they increased by 17 per cent between 1950 and 1952, while the increase in cost of living was more than 20 per cent. In 1953 wages rose to 25 per cent above the 1950 level, but prices, after the currency reform of June 1, 1953, were more than 30 per cent higher than in 1950. By the end of the year, following the price reductions announced in the

so that family incomes may well have risen, even where individual real wages have not done so.

Workers' incomes have, however, been supplemented by social benefits. Movements in average real wages hide significant differences in changes in real wages as between different groups of workers. Generally speaking, skilled workers employed in industries receiving preferential treatment in the economic plans seem to have enjoyed rather substantial increases in real wages,

while unskilled workers in industries of low priority have fared worst.

In the course of 1953 the shortage of consumer goods assumed serious proportions in some of the Eastern European countries; poor harvests in 1952 throughout the region, underfulfilment of production plans for the consumer goods industries as a result of bottlenecks, and unplanned inflations of the total wage bill were among the causes of this development. In the German Democratic Republic and Czechoslovakia attempts were made to restore equilibrium between demand for and supply of consumer goods through a reduction in purchasing power and by measures to raise production 'norms' and tighten labour discipline. During the latter half of 1953, however, a considerable revision in official policy was announced in the Soviet Union and in the People's Democracies.

Raising Consumption

Various decisions announced by the Government of the Soviet Union in the course of 1953 indicate that henceforth greater emphasis will be given to the raising of levels of consumption, both in quantity and quality. With effect from April 1 consumer prices were reduced to a significantly larger extent than in the two previous years. Also, the target for the annual State Loan was set at a much lower level than in recent years. In August the Government announced a revision of production policies from which it appears that action is being taken to match the rather substantial increase in consumers' purchasing power with a rise in output of agricultural and industrial consumer goods. In a statement before the Supreme Soviet of the U.S.S.R. (speech of August 8, 1953, reproduced in *Soviet News*, published by the Press Department of the Soviet Embassy in London, August 11, 1953) Mr Malenkov declared that it had now become possible and necessary to develop light and food industries at the same rate of expansion as heavy industry, which theretofore had had to be given first priority. The targets for light industries were to be raised substantially and it was also intended to charge certain heavy industries with the production of consumer goods. But the most urgent task of the country was stated to be the raising of agricultural production, particularly by means of improved remuneration of the farmers working on collective farms. In September the Government announced measures to implement this decision. The system of compulsory delivery would be revised and taxes reduced in order to give the collective farmers a more personal interest in the raising of output. Moreover, prices for deliveries of agricultural produce were raised considerably, and a more ample supply of capital and agricultural equipment was announced.

Incentives

In other countries of Eastern Europe comparable policies were also announced. The measures taken to reduce consumption and tighten labour discipline in the German Democratic Republic and Czechoslovakia were reversed. Certain funds destined for investment in heavy industry in both countries were directed to housing and other welfare measures; and some consumer prices were reduced. In Czechoslovakia and Poland the system of compulsory delivery quotas for agricultural producers was revised; greater emphasis is to be placed on

material incentives for peasants. In Bulgaria, Hungary and Rumania policies to increase investment in light industries producing consumer goods, and to encourage agricultural production, were also announced.

The general tendency of economic policies in Eastern Europe thus seems to be towards a revaluation of objectives as well as methods. More emphasis is to be given to improving the lot of the consumer through an expansion of light industries and, particularly, of agricultural output. While the increase in output of industrial consumer goods is to be brought about mainly through a revision of investment targets, the most notable change in agricultural policy seems to be that material incentives to raise production are to replace to some extent the systems of control and compulsory delivery which were hitherto heavily relied on.

Throughout Eastern Europe the harvests of 1952 were poor. In 1953, however, the much more favourable harvest results, except in the Soviet Union and parts of Poland and the German Democratic Republic, facilitated to a considerable extent the implementation of the new policies for achieving higher living standards. Another means by which, at least in certain countries, the supply of consumer goods could be increased temporarily was reduction in strategic and other stockpiles. In some countries the output of consumer goods may also be increased through better utilisation of existing productive facilities, and better supply of materials. But a durable and sustained rise in consumption standards will depend on increased investment in the consumer goods industries which, even with the increased capacity of investment goods industries, may take some time to achieve in these fully employed economies.

Whither Interest Rates?

SINCE the present British Government assumed office in the autumn of 1951 there have been two increases in Bank Rate followed by two reductions, bringing the level now down to 3 per cent compared with the original figure of 2 per cent, at which, apart from the short-lived rise at the outbreak of war in 1939, it had remained unchanged for nearly 20 years.

The question now exercising the minds of all those concerned with investment is whether the authorities will continue to reduce interest rates, or whether they will consider that the return to easier money has gone far enough. So far the weight of opinion seems to be on the side of yet another reduction of ½ per cent in Bank Rate, with consequent adjustments elsewhere. But the Chancellor of the Exchequer has given clear indication that there is no room in his financial policy for a fixed attachment to low rates of interest, and without doubt there would be no hesitation in raising Bank Rate again if circumstances appeared to demand such a move. At most, it can be said that conditions both at home and abroad are unlikely to force a return to harder money in the near future. Current money rates in the United Kingdom

(continued at foot of next page)

From Barclay's Bank Review, August 1954

Cost of the Indo-China War

THE major part of the cost of the war in Indo-China from 1946 to 1954 was included in the French military budget. The contribution of the U.S. Government, however, increased after 1952 and was expected to be of major importance in 1954 (see accompanying table). The U.S. contribution was in the form of deliveries of military supplies, for which there is no accurate estimate as yet, but which are believed to have amounted to 85 billion francs in 1952 and 119 billion francs in 1953, and which have been estimated at 200 billion francs for 1954 (all figures in 1954 prices). In addition, for the fiscal year ended June 30, 1954, the United States had earmarked the equivalent of 275 billion francs (U.S.$785 million) specifically for Indo-China; 135 billion francs ($385 million) of this amount was for the support of the national armies of the Associated States. Up to July 1954, however, France had received only the equivalent of 40 billion francs ($115 million). In 1952 and 1953, the U.S. Government had not specifically earmarked for Indo-China the direct aid granted to France (195 billion francs and 173 billion francs, respectively), but it is likely that the desire to help France meet the cost of the war was a factor in determining the amount of aid. It is also likely that various offshore orders were placed in France on account of the war.

Because of the complexity of the arrangements, it is difficult to deter-
(*continued overleaf*)

From International Financial News Survey, August 6, 1954

WHITHER INTEREST RATES? (*continued from previous page*)

are higher than those ruling in the United States and there are no indications of any imminent changes in American credit policy.

In the short run the dominant influence on the rate of interest is that exercised by the authorities themselves, and they have every inducement at the present time to keep rates as low as possible. Between now and the end of 1955 arrangements will have to be made for the conversion of £1,258 million of debt, and the Government is understandably anxious to deal with these and possibly other conversion operations as successfully as it has handled those already undertaken during the past twelve months. Moreover, the Chancellor is anxious to reduce the cost of Government borrowing in order to ease the burden on his next budget, and to make way for other claimants. It is indeed not without point to recall that cheap money came in 1932, not so much because of the representations of economists, as because the Government of the day was anxious to balance its budget.

The interest of the authorities is therefore clear. Gilt-edged prices are being supported by an adequate flow of funds from institutional and private investors, and there is every indication at the moment that the flow of savings will continue to be adequate for this purpose, but should the demands on the capital market increase, or savings become inadequate to support current prices, doubtless the authorities would allow the market to find its own level.

FINANCING OF THE WAR IN INDO-CHINA
(billion 1954 francs)

	French Military Budget for Indo-China[1]	Associated States Military Budget	U.S. Direct Contribution[2]
1946	102	—	n.a.
1947	131	—	n.a.
1948	136	—	n.a.
1949	177	—	n.a.
1950	258	—	n.a.
1951	321	15	n.a.
1952	428	30	85
1953	404	38	119
1954	428	60	475
	2,385	143	n.a.

1. Includes subsidies to Associated States (67 billion francs in 1952, 68 billion in 1953, 135 billion in 1954); excludes such expenditures as veterans' compensation, repatriation, etc.
2. Estimates. The 1954 figure, which is likely to be revised downward, covers 200 billion francs of military deliveries and 275 billion francs of direct aid.

mine the extent to which France and the United States each financed the war. France supported a large part of the total cost until 1952, but her share was reduced in 1953. The plan for 1954 was that the United States would finance roughly three fourths (475 billion francs) of the total cost of 628 billion francs, France contributing the remainder.

Between 1946 and 1954, the total cost of the war must have been above 3,000 billion francs (in 1954 prices) or about $9 billion, of which France contributed about two thirds. The budgetary contribution of the Associated States increased from 15 billion francs in 1951 to 60 billion francs in 1954, but they received a subsidy from France of roughly twice their contribution. In 1954, the subsidy (135 billion francs) was financed by the United States through the French budget (as part of the U.S. aid to support the Associated States armies).

Food Production and Human Reproduction

WORLD food production as a whole continues to outdistance the increase in population, but this gain is still shaded by a background of surpluses in some regions and continued shortages and malnutrition in other areas.

This summary of the world's current production of food is contained in the annual review, 'The State of Food and Agriculture, 1954', published by the Food and Agriculture Organisation of the United Nations (F.A.O.).

The combined output of agricultural products continued its marked upward trend in 1953-1954 (for the second consecutive year), the report states, but the increase was 'less striking' than in the previous year. Production is expected to be maintained in the current year 'and may show further increase', the report adds.

The outlook for 1954-1955 agricultural year is for more meat and milk; increased supplies of oilseeds, coffee, tea and tobacco; but a slow decline in rubber output and 'no marked recovery' in production of jute and hard fibres.

Largest production increases in 1953-1954 were registered in Western Europe and the Near East. In general, food production outstripped population growth in 'all the less-well fed regions' except Latin America.

Over the past four years world agricultural production is estimated to have increased by nearly three per cent annually, the report says, while world population increased 1½ per cent annually. In 1952-1953, world production for the first time since the war caught up with the growth in population. This trend continued in 1953-54 for the world as a whole, the report indicates.

The F.A.O. report expresses 'concern' over two problems in particular: first, how to reduce existing surpluses without unbalancing world trade in agricultural commodities; second how to ensure continued agricultural expansion, in selected products and in certain countries, so as to improve world nutrition as a whole.

The feature of the food and agricultural situation which caused most concern in 1953-54, the report states, was the continuing accumulation of excess stocks of some commodities, particularly in North America.

Wheat represents the crux of the surplus problem, the report finds. Stocks of wheat held by the four main exporting countries (United States, Canada, Australia, Argentina) increased by some 12 million tons (33 per cent) during 1953-54 and now represent about two and a half times their current annual level of exports.

Stocks of sugar are 'also very heavy', but the report expresses hope that restrictions on production in Cuba and the export quotas under the International Sugar Agreement may gradually correct the position.

Looking ahead, the report foresees 'a slow improvement in demand' for agricultural products in 1954-55. However, it adds, 'unless special measures are taken, this is unlikely to reduce to any extent the existing problem of agricultural surpluses'.

From the U.N. Food and Agriculture Organisation, Rome, August 1954

The Economics of Commonwealth

BY JOHN BIGGS-DAVISON

ENGLAND's ability to give leadership to the Commonwealth, to contribute to the cause of European unity, and to act constructively within the North Atlantic Alliance rests in great measure upon her traditional and moral standing. It must also rest upon her economic capacity and potential and upon the productivity of British agriculture and industry whose recovery and expansion have been marked but insufficient. It is not enough to castigate obsolete methods or indifferent management and to preach thrift and the gospel of work to highly organised trade unionists still conscious of the memory of mass unemployment. If Labour is to pull its weight without fear of unmerited unemployment, if patient research and bold experiment are to flourish under private enterprise, if private enterprise is to be enabled to invest enough in the improvement and re-equipment of farm and factory, taxation must be substantially reduced and long-term opportunities provided in sure and expanding markets. Although the conclusion is unfashionable, to secure these markets reasonable protection will be essential and will become more so as controls are done away with, as individual trading replaces bulk purchase agreements of a long-term character and an approach is made to the full convertibility of currencies. To secure her Commonwealth markets Great Britain must make herself more productive of the goods, chiefly capital equipment, which her partners need to increase their primary production and establish such secondary industries as they may decide to set up.

Priority for Development

Our island resources are strained and the London Conference of Commonwealth Finance Ministers decided to concentrate British capital resources available for overseas on projects helpful to the general balance of payments of the sterling area. Proposals emanating from the World Bank that sterling should be increasingly devoted to the financing of development of foreign countries outside the sterling area should surely be resisted. British savings and British capital are needed for Commonwealth and empire development, and inducement, policy and preference should be used to make it more generously available for this purpose. Now the overseas countries of the Commonwealth, rather than the United Kingdom, appear unenthusiastic for the preferential idea. Times have changed since the Ottawa Conference. Industrialisation has taken place in the overseas Commonwealth and the colonial empire. This process will continue although it may be slowed down for a while by a growing world demand for more food and raw materials. Chief place is rightly given in the Colombo Plan to agricultural development. Great Britain for her part is growing, and will grow, more food at home.

It seems therefore that ample scope will remain for the mutual balancing within the Commonwealth and Empire of the surpluses and deficiences of its members. The United Kingdom will remain the world's largest

From The Fortnightly, August 1954

market for foodstuffs of all kinds, and is second only to the United States in her demand for raw materials, and the Dominions would think very seriously again about preference if they did not take almost for granted the privilege of general duty-free entry into our market. Industrial development overseas will demand an ever-growing supply of capital equipment such as British industry can well produce and provide an expanding market for quality consumer goods.

Preferential and Free Trade Areas

In November 1952, Mr John H. Williams of Harvard advocated in the course of his Stamp Memorial Lecture at the University of London 'larger trading units able to cope on more nearly equal terms with the United States'. The sterling empire and Commonwealth is already such a unit by virtue of defensive restrictions rather than of a coherent plan of expansion. The very nature of the Commonwealth forbids its amalgamation into a federal and fiscal union. Empire free trade is impracticable and imperial federation a dead cause. The only feasible and desirable alternative is the constitution of a preferential group or series of preferential groups. Such unfortunately are at present under the cloud of international agreements and of United States policy. Customs unions are encouraged but are out of the question for the Commonwealth. A typical American view is well put by Professor Clair Wilcox in *A Charter for Western Trade*:

> Preferences have been opposed and customs union favoured in principle by the United States. This position may obviously be criticised as lacking in logical consistency. In preferential arrangements discrimination against the outside world is partial; in customs unions, it is complete. But the distinction is none the less defensible. A customs union creates a wider free trade area, removes obstacles to competition, makes for a more economic allocation of resources, and thus operates to increase production and to raise standards of living. A preferential system is set up for the purpose of conferring a privilege on producers within the system and imposing a handicap on external competitors. A customs union is conducive to the expansion of trade on a basis of multilateralism and non-discrimination; a preferential system is not.

When free trade England possessed economic mastery free trade became economic orthodoxy. A customs union is the appropriate fiscal system for a continental federation such as the U.S.A., or for that matter the U.S.S.R. Both these empires are fiercely protected systems, the one using tariffs and subsidies, the other a totalitarian monopoly of foreign trade. It was mainly because the six Schuman countries in Western Europe were planning a complete integration on the American model, rather than a preferential area such as has been advocated for all the free European nations in the Strasbourg Plan of the Council of Europe, that they promptly obtained a waiver from the provisions of the General Agreement on Tariffs and Trade which restricted their right to discriminate in favour of each other in respect of coal and iron and steel. If thinking Americans require to be convinced that economic co-operation between sovereign States must take a different form, they might well

consider the preferential arrangements which were entered into by their own country with Cuba and the Philippines. Customs unions pledged to non-discrimination are as unsuitable to most countries today as was free trade in the nineteenth century. As Lord Swinton told the House of Lords on March 31, 1954, it is 'neither logical, nor sensible, nor fair, to say that a customs union which enabled a group of countries to encircle themselves with an all-embracing prohibitive tariff ring was a blessed thing but that the looser and far less prohibitive system of Imperial Preference was something wicked'.

Free Trade, Fair Trade, Tariff Reform

Free trade and *laissez-faire* have dominated economic thought, but their history has been short. The idea that the devil should be allowed to take the hindmost was alien to medieval canons. Paternalism and protection were characteristic of Tudor and early Stuart monarchy. Our early colonial system was a closed economy. Huskisson and Peel made it something better, a moderate system of tariff preferences. But Sir Robert Peel did not stop there; not only were the Corn Laws repealed and British agriculture sacrificed but Colonial Preference was abandoned to the dismay or ruin of our fellow-subjects overseas. While England fought hostile tariffs with free imports, France, Germany and the United States nourished nascent industries on tariff protection. By the 1914-1918 war both the United States and Germany had outstripped us in industrial production.

When in 1887 the Australian statesman Alfred Deakin met John Bright in London he complained that the mother country, instead of treating the colonies like children, put them on the same footing in her markets 'as enemies and rivals'. Despite the fair trade and tariff reform movements it was Canada which took the initiative when the revival of imperial preference began. During the 1914-1918 war Great Britain imposed various protective duties and the 1919 Budget made all existing customs duties preferential in favour of empire countries. A decade later the world depression impelled the abandonment of the gold standard, the consequent and successful formation of the sterling area and the 11 agreements signed at Ottawa in 1932. Great Britain agreed to continue existing preferences on Dominion products and to extend them to wheat, meat and other imports. The Dominions and India agreed to lower tariffs in favour of certain British goods and to widen the margin of preference in favour of others.

U.S. Tribute to Imperial Preference

Here were the beginnings of an imperial economic system arising from the needs and free consent of its members. Its scope was reduced by the Anglo-American Trade Agreement concluded in November 1938, when war threatened and American co-operation was of first importance. Imperial preference was however defended against American pressure and misunderstanding through the years of war and in the heyday of the Roosevelt régime, in 1943, earned this tribute from the United States Department of Commerce:

> The record of the '30s demonstrated that foreign countries, save for those narrowly dependent on the American market, could adapt

> themselves, after initial serious disturbance, to a relatively low level of exchange with the United States and yet attain a substantial internal prosperity and promote their trade with each other . . .
>
> The members of the sterling bloc were, on the whole, outstanding. They not only attained,for the most part, their pre-depression levels of production and income by 1935, but also maintained virtually complete exchange stability among themselves, once the realignment of their currency ratios had been made during the depression, without depending on exchange controls or other intricate measures of direct intervention in the trading mechanism.

The British economy today is insulated by 'exchange controls' and 'other measures of direct intervention' of a very restrictive character.

Preferential arrangements on the other hand provide a framework for the expansion of trade by private enterprise. Far from restricting world trade, imperial preference helped its recovery from the depression of the 1930's and provided stable areas for investment. In 1936 the Economic Committee of the League of Nations recorded that as the United States 'did not at the same time adopt a policy of tariff agreements the [most favoured nations] clause—for which they invariably pressed—enabled them to continue to impose duties which were in some cases prohibitive, without fear of discrimination, while they had the benefit of all concessions made to one another by other countries'. This attitude was restrictive of a free flow of international trade, and countries were deterred from initiating negotiations for tariff reductions.

Rule of Non-Discrimination

The sterling area emerged from the depression by a denial of the principle but what was sauce for the goose was not allowed to be sauce for the gander. British policy vetoed the Ouchy Convention for reciprocal tariffs between Belgium and Holland and prevented like agreements between the Oslo powers. In the absence of nation-groups able to breathe and to stand, various forms of 'national socialism' ran amok, the genius of Dr Schacht was given full expression and a new *Drang nach Osten* led on to the final collision in 1939. The Atlantic Allies should not repeat these follies. Now as then the enforcement of non-discrimination is likely to evoke reactions which are hostile to free enterprise, subversive of human liberty, incompatible with prosperity and dangerous to international peace.

A non-discriminatory system for the free world based on dollar aid and rigid gold parities involves a heavy excess of United States exports over United States imports and a consequent universal dis-equilibrium. It is unrealistic and unreasonable to expect a lasting balance to be achieved by a pronounced and permanent increase of exports to America. Unlike Great Britain in the nineteenth century, the United States is not the world's great buyer of goods so much as the world's greatest potential seller. American tariffs have been reduced but are unlikely to be effectively lowered without subsidies or other counterbalancing measures. What Mr George Wyndham said in 1892 has still some relevance: 'The man who believes that the American artisan or the French small proprietor will ever give up protection so long as it makes the first rich, and saves the second from starvation, is

unfit for public life.'

Even the removal of their tariffs could not make Americans buy what they can well make themselves nor are they likely to sacrifice their livelihood to help foreigners earn dollars. The American Congressman and elector may well prefer to extend the principle of aid rather than to encourage 'trade not aid'; the importing is a minority interest. Foreign aid means and has meant high taxation but it has helped to restrain inflation. It has provided for the export of farm and other surpluses and thus for the export of unemployment. Private capital is commonly a coward and foreign aid has taken over many of the functions of the American private investor.

The Dollar Drug

American aid in one form or another has done wonders in connection with the recovery of Great Britain and of free Europe but the added weight it has given to the exorcising of preference has added to the difficulties of the recipient countries. The dollar has become a drug acting as a welcome palliative but making complete recovery impossible. It would be better for all concerned if agreement could be reached on the stabilisation of American demand for sterling area raw materials and other outside products both in price and in quantity so that the rest of the world could bring purchases from the United States as quickly as possible into balance with the dollars earned. The complementary policies would be a re-direction of the American economy towards development at home. Mr Morris S. Rosenthal, who is now President of the United States Council of the International Chamber of Commerce, declared in October 1952, when he was a delegate to the United Nations Commission for Asia and the Far East:

> The United States Government should withdraw the policy whereby it throws the weight of the whole Government behind the promotion of exports. Give the other countries a chance to re-establish themselves in the foreign markets of the world, to regain and recapture the share that they held before the last war. That, in itself, will ensure the disappearance of the dollar gap.

The unattainable aim of non-discrimination should be abandoned and the preferential tariff reinstated. By this means nations and regions and groups of nations having historical affinities or common ideals and interests would be able to maintain themselves and prosper.

Commonwealth v. Federation

Much confused thinking on economic policy is connected with the belief that national sovereignty is the cause of conflict and that the nation is a transient and primitive phenomenon due to be submerged in a super-State. This kind of determinist philosophising ignores the organic nature of the nation which, like the family, is fundamental to civilisation and a starting point for European unity or international co-operation. With every new improvement in communications the prefabricated supra-national authority becomes less and less justifiable. The Commonwealth has shown that nationalism can be constructive as well as destructive and that independent sovereignties can work fruitfully together. The Commonwealth is building something more delicate and more valuable than a super-State. As the Prime Minister told the

American Congress in January 1952: 'The British Commonwealth of Nations, spread all over the world, is not prepared to become a group of States in any continental federal system on either side of the Atlantic.' Every nation has something special to contribute to the wealth and civilisation of mankind. For individual businesses, economic areas and sovereign powers there is probably an optimum size. World government is incompatible with free institutions and government by the true consent of the governed.

Sovereignty and Preferences

For the Commonwealth or for any group of sovereign States preference is the means of economic collaboration. As was suggested in for example the Strasbourg Plan, members of such groups can guard basic national interests and industries against all comers while exchanging reciprocal advantages first among themselves, then with others. Preference is necessary to a sound balance of trade and payments and thus to any advance to full convertibility and multilateral trade. Preference in capital investment, raw material supplies, transport and trade and migration can give the Commonwealth partnership a firm foundation of profitable business. But the partnership may break, and the colonies look for independence outside the Commonwealth, if their development is stunted through indifference or inappropriate fiscal policies in the mother country. It is neither right nor prudent that Great Britain or any other independent member of the sterling area should draw on the dollar earnings of colonial producers desposited in the sterling dollar pool and fail to make appropriate return in the form of capital or goods or services. Rome lived on her provinces and Rome fell.

G.A.T.T. Review

At Sydney in January the Commonwealth Ministers noted 'the forthcoming review of the General Agreement on Tariffs and Trade and agreed that there should be prior consultation among Commonwealth countries'. The Randall Report and the President of the United States have asked for re-negotiation. The Commonwealth should press for a form of re-negotiation which will rescind the 'no new preference' rule and enable the most favoured nation clause in commercial treaties to be transformed from its unconditional form to a conditional form—conditional, that is, on effective reciprocity. The nations of the Commonwealth and all nations would then be free to make preferential agreements among themselves and to look outward with confidence to dealings of mutual benefit with foreign countries.

Commonwealth and International Reciprocity

It would be possible for specially intimate arrangements to be made between members of the Commonwealth, such as Australia and New Zealand or the Asian members, which are neighbours or have similar economic standards. It is impossible to discuss here Canada's anomalous exclusion from the sterling area. She may decide in the future to grow closer to the sterling Commonwealth but in any case she would retain special trading relations with the United States. A suggestion was made at a recent conference in Karachi of the International Islamic Economic Organisation that Pakistan should exchange preferences with other

Muslim States. Great Britain for her part requires a closer economic connection with her European neighbours than do her Commonwealth partners, although the Continent is an important market and supplier of capital goods for overseas countries and the position of sterling as the leading continental currency is of great service to the whole sterling area.

It is through the progressive realisation of such policies that we shall be better enabled to fulfil our duty to our companions of the Commonwealth and to the advancement of the colonial dependencies where Communism finds increasing opportunity of mischief. Without such policies we shall hardly maintain our national independence, furnish from within the Commonwealth the means of defence, for which we still lean upon American generosity, or provide for the social and economic welfare of our peoples.

Besides the empire and Commonwealth, there is a proper place for preferential areas or groups in Latin-America, in Asia and the Far East and in Europe with which the Commonwealth might be well advised to make interlocking secondary preferences as suggested in the Strasbourg Plan. The more stability and confidence and expanding trade is strongly based upon national and regional realities and interests the more hope there will be of the economic erosion of the Iron Curtain by a balanced free world order.

More Food from Snowy Mountains Scheme

THE importance to Australia's food production of the Snowy Mountains Hydro-Electric Scheme in south-east New South Wales is underlined by figures given on August 27.

The Engineer-in-Charge at the Melbourne office of the Snowy Mountains Authority, Brigadier C. Lawrence, said that irrigation water from the scheme would allow about 10,000 farms to be established in the Murrumbidgee Valley. Production from these farms was expected to be worth about £A25,000,000 a year. Thousands of acres of fertile land in the area could not be brought into production until irrigation overcame the problem of low rainfall. Three hundred thousand acre feet of water would be supplied to the Murrumbidgee Valley in 1959 and this would be increased to 500,000 acre feet by 1962.

Australia could increase her population greatly only by producing more food and more power for industrial expansion. The flow of electricity from the scheme would be available from the Menyung power station by the end of this year and the second station at Tumut would come into use in 1958/59.

From Radio Australia

Digest Reviews

Balance Sheets and the Lending Banker, by J. H. Clemens, A.C.I.S. Europa Publications; 20/-.

This is a revised and enlarged edition of a useful book, which should not only be studied by those engaged in banking, but also by accountants as well as business men who wish to have an appreciation of the factors which govern the important matter of obtaining financial assistance from the lending banks. Written by a practical banker, who now lectures at the Staff College of his bank, the author has a wide knowledge based on experience of the problems confronting the bank manager in his day-to-day life, and it covers questions which have not previously been adequately dealt with.

As the author points out in his introduction, the approach to this subject from the accountant tends to be that of a specialist in figures, with an inclination to place too much reliance on the absolute value of statistics and indices. On the other hand, from the banking side there has been a tendency to base far too much upon 'the break-up value of assets and the prospects of repayment by a "gone concern".' Yet, as he rightly says, no practical banker when making an advance expects repayment to be made by selling up his customer.

Taking the view of the accountant who is concerned mainly with figures and the banker concerned mainly with people, Mr Clemens combines the views of both, and provides much valuable information for those whose business life necessitates an understanding of these questions.

The first part of the book is described as 'Mainly Theoretical' and the second part as 'Mainly Practical', and this new edition brings in chapters on Consolidated Accounts and the Breaking up of a Balance Sheet. There are a number of illustrative examples which assist in the readers' understanding of the text, and the balance sheets of a number of actual companies covering a range of differing activities are discussed, and reproduced in full.

FRES.

How Money is Managed. The ends and means of Monetary Policy, by Paul Einzig. Penguin Books, 2/6.

This Pelican book gives an interesting account of the management of monetary policy, and clearly shows the very remarkable changes which have occurred within the past 25 years in both the objectives and the methods of management of monetary policy. Part one gives the background, Part two describes the ends and Part three the means. The final chapters give Mr Einzig's conclusions, and some brief ideas on the future of monetary policy, and he considers 'there can be no doubt that scientific monetary management has come to stay, and that mankind will not revert to the automatic system'.

An invaluable text book for the layman who wants to know more about this important question of monetary management.

E.H.

United Nations Economic Bulletin for Europe, 1st Quarter 1954, vol. 6. Research and Planning Division of the Economic Commission for Europe. Geneva, July, 1954. Price 3/9 sterling.

This is a clear and valuable

account, far more readable, as were its predecessors, than many surveys of its kind. It shows that in the first quarter of this year the upward trend in industrial production was re-established and persisted in most Western European countries. This was true both of capital and consumer goods, despite continued weakness in coal and steel, the subject of the great Schuman experiment.

The American recession has had a less marked effect than some had feared; and dollar earnings and the purchasing power of primary producing countries have kept up. It would have been interesting to have had some reflections on the extent to which the United States has largely mastered the recession because it has become in some measure a controlled, rather than a free, economy. But this is a strictly factual survey and very good it is.

Western European exports to the overseas countries outside North America were, we are reminded here, substantially higher than in the corresponding quarter of last year. The decisions made by the rulers of the Soviet and satellite countries to give greater benefits to consumers in their budgets reflected their need and desire to give their peoples some of those knick-knacks of which Sir Winston Churchill spoke to the American Press.

H.Y.D.

Basing Point Pricing and Regional Development. A Case Study of the Iron and Steel Industry. By George W. Stocking. North Carolina University Press. (London: Geoffrey Cumberlege), 52/-.

The author, who is well-known as an authority on cartels and monopolies, has succeeded in producing a very readable book, not too elementary for the trained economist, and, at the same time, not too obscure for the ordinary reader. He describes his book as 'a case study in industrial structure, pricing practices and economic welfare'.

George W. Stocking is Director of the Institute of Research and Training in the Social Sciences, and is Chairman of the Department of Economics at Vanderbilt University. He was asked in 1950 to analyse basing point pricing in relation to the economic growth of the South, and this study is the outcome of this request.

Mr Stocking reaches the conclusion that if, through carefully planned and skilfully executed fiscal and monetary policies, society could prevent violent fluctuations in business activity and ensure a continuing high level of employment, price flexibility in specific industries would perform a useful function. On the other hand, if reasonable stability and a high level of economic activity cannot be achieved, he suspects that special control programmes, whether administered by public authority or privately, applied to particular industries do more harm than good. He says: 'Some interference with freedom may be necessary to perpetuate it, but in a democracy policy should be directed toward creating an environment conducive to freedom and laying down rules designed to preserve it.' A sound maxim, which might well be taken to heart by politicians of all parties and all nations!

E.H.

ALSO RECEIVED

The National Readership Survey. 1954 *edition. The Institute of Incorporated Practitioners in Advertising.*

A study of readership in Great Britain of selected National and

FOR REFERENCE

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I.M.F.: *Annual Report* (1954) *of the International Fund, Washington D.C.* Examines the prospects for convertibility besides surveying developments during the year in international trade and payments and current monetary and fiscal policies. (544)

G.A.T.T.: *International Trade* 1953. *The Contracting Parties to the General Agreement on Tariffs and Trade, Geneva, July* 1954. Extracts were made from this in the September DIGEST. (545)

B.I.S.: *Bank for International Settlements. 24th Annual Report, 1st April—31st March* 1954. *Basle 14th June*, 1954. Extracts from this were made in our August and September issues. (546)

Exchange Restrictions: *5th Annual Report* on this subject by the I.M.F., Washington, 1954. A very thorough survey of the position in Western Europe, the Outer Sterling Area, Latin America, the Far and Middle East and in individual countries. (547)

U.S. Welfare State: *Social Security: Lessons from America, P.E.P.* (*Political & Economic Planning*, 16 *Queen Anne's Gate, London, S.W.1*). A welcome study of social security in the U.S.A. showing some of the ways in which the free American system has been modified since the New Deal. (548)

Industrial Relations: *Co-partnership, No.* 478. *September*, 1954. *The Journal of the Industrial Co-partnership Association.* Obtainable from 36 Victoria Street, London, S.W.1, for 5s. This issue gives a Report of the Association's 1954 Conference on Human Relations and the Size of Industry, and includes valuable lectures on such relevant and important subjects as the I.C.I. scheme. (549)

Road Safety: *Metropolitan Police District, A Statistical Analysis of Road Accidents in* 1953, *Published by the Commissioner of Police of the Metropolis, Scotland Yard.* Shows an increase of road casualties by 2,536 or 6.4 per cent, compared with 1952. (550)

From India: *Report on Currency & Finance for Year* 1953-54, *Bombay* 1954. Gives a detailed appreciation of the economics of the Indian Union and its constituent States and a survey of international economic developments.) (551)

U.S. Economy: *Federal Reserve Bulletin, August* 1954, *Board of Governors of the Federal Reserve System, Washington.* Covers the labour market, agricultural and business conditions, and provides financial, industrial and commercial statistics. (552)

From Italy: *Banco Nazionale del Lavoro Quarterly Review* 28-29, *Rome, January-June* 1954. Written in English, this publication takes stock after the first decade since Bretton Woods. Contains material on Italian population and poverty and an historical article on the fourteenth century merchant and banker, Francesco Di Marco Datini, of Prato. (553)

DIGEST REVIEWS *(continued from previous page)*

Provincial Newspapers and of selected weekly and monthly periodicals, having interesting social implications.

Soviet Studies. Vol. VI, No. 1, *July* 1954. *By J. Miller and R. A. T. Schlesinger. Basil Blackwell*, 9/-.

This issue of the quarterly review of Social and Economic Institutions of the U.S.S.R. covers Soviet housing, Amalgamation of Collective Farms, Soviet Law, and some comments on the U.S.S.R. after the death of Stalin. There are also reviews of recent books, and a number of articles from Soviet publications.

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